2006 ANNUAL REPORT

ENTERTAINING

FOR THE BENEFIT OF QUÉBEC SOCIETY

LOTO QUÉBEC

106-07472

LOTO-QUÉBEC'S MISSION IS TO ASSURE THE SYSTEMATIC AND EFFECTIVE OPERATION OF GAMES OF CHANCE IN THE PROVINCE. CREATED IN 1969 TO IMPLEMENT A PUBLIC LOTTERY, THE CORPORATION HAS SINCE BEEN ENTRUSTED BY ITS SHAREHOLDER, THE GOVERNMENT OF QUÉBEC, WITH VARIOUS NEW MANDATES THAT HAVE SEEN IT CONSIDERABLY DIVERSIFY ITS ACTIVITIES OVER THE YEARS. – IN ADDITION TO A STATE LOTTERY, THE CORPORATION NOW OPERATES THREE CASINOS, RELATED RESTAURANT AND HOTEL SERVICES, A VIDEO LOTTERY NETWORK, ALONG WITH NETWORK BINGO ACTIVITIES. THE CORPORATION IS ALSO ACTIVE IN INTERNATIONAL MARKETS, OFFERING PRODUCTS AND SERVICES DEVELOPED WITHIN ITS VARIOUS AREAS OF COMPETENCE. – LOTO-QUÉBEC RETURNS THE FRUITS OF ITS ACTIVITIES IN THEIR ENTIRETY TO THE GOVERNMENT AND TO THE PROVINCIAL COMMUNITY AT LARGE. IN RECOGNITION OF ITS SOCIAL RESPONSIBILITIES, THE CORPORATION FINANCES A PROGRAM FOR THE PREVENTION AND TREATMENT OF COMPULSIVE GAMBLING, WHILE TAKING ITS OWN ACTIONS TO COMBAT DEPENDENCY ON GAMING. MOREOVER, THE CORPORATION MANIFESTS ITS SOCIAL COMMITMENT IN NUMEROUS OTHER WAYS, INCLUDING THROUGH ITS FINANCIAL SUPPORT OF COMMUNITY ACTION AND ITS SPONSORSHIP PROGRAM THAT GENERATES SIGNIFICANT ECONOMIC SPIN-OFFS THROUGHOUT QUÉBEC.

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Financial Highlights

As at March 31 (in thousands of dollars)	2006	2005	Variation
Total Revenues	4,016,030	3,937,464	2.0%
Lotteries	1,860,630	1,857,225	0.2%
Casinos	758,464	751,913	0.9%
Restaurants	86,164	82,766	4.1%
Lodging	14,716	13,407	9.8%
Video Lotteries	1 298,805	1,236,884	5.0%
Bingo	39,857	36,597	8.9%
Multimedia	1,354	1,070	26.5%
Inter-Company Transactions	(43,960)	(42,398)	3.7%
Gross profit	2,532,509	2,475,875	2.3%
Net income	1,613,943	1,583,133	1.9%
Total assets	1,005,120	942,309	6.7%
Shareholder's equity	134,946	135,022	-0.1%

Distribution of Revenues

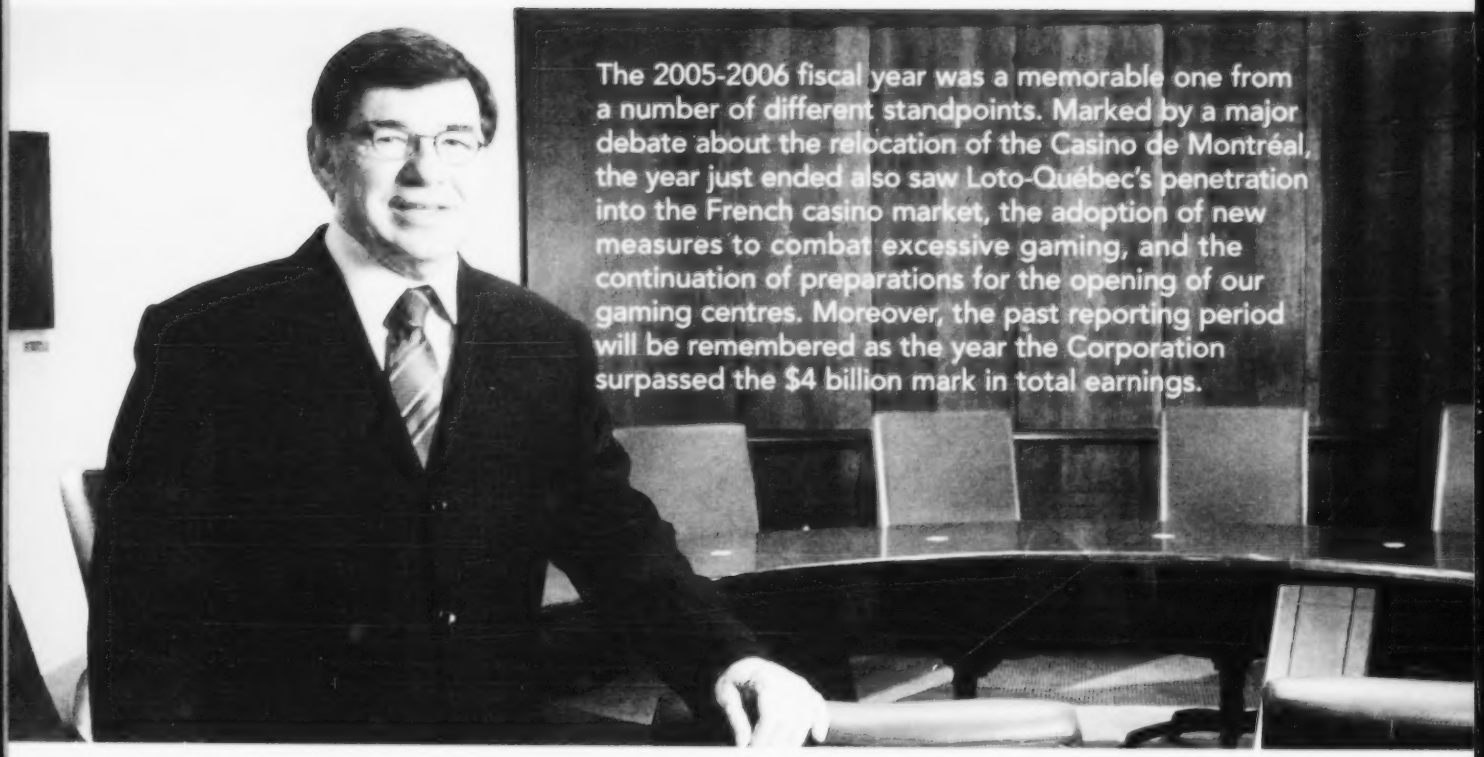
Lotteries	46.3%
Video Lotteries	32.4%
Casinos	18.9%
Restaurants and Lodging	1.4%
Bingo	1.0%

Economic Contributions

Dividends to the Québec Government	$1.537 billion
Prizes awarded to lottery and bingo winners	$984.6 million
Commissions and other compensations to lottery, video lottery and bingo network partners	$427.3 million
Purchase of goods and services	$394.6 million
Salaries and employee benefits	$359.6 million
Taxes and special contributions to governments	$254.7 million

Social Contributions

Contribution to the fight against excessive gaming	$35 million
Contribution to the Ministère de la Santé et des Services sociaux In aid of the elderly who have lost their autonomy	$30 million
Contribution to the Ministère de l'Agriculture, des Pêcheries et de l'Alimentation for agricultural fairs	$5.5 million
Contribution to non-profit organizations	$21.5 million
Fonds d'aide à l'action communautaire autonome	$13.3 million
Fonds d'aide à l'action humanitaire internationale	$2.7 million
Sponsorships	$16.6 million
La Collection Loto-Québec	$0.4 million



The 2005-2006 fiscal year was a memorable one from a number of different standpoints. Marked by a major debate about the relocation of the Casino de Montréal, the year just ended also saw Loto-Québec's penetration into the French casino market, the adoption of new measures to combat excessive gaming, and the continuation of preparations for the opening of our gaming centres. Moreover, the past reporting period will be remembered as the year the Corporation surpassed the $4 billion mark in total earnings.

The Year's Results

Loto-Québec's financial results during fiscal 2005-2006 met the expectations of its shareholder, the Government of Québec. Having posted consolidated revenues in the order of $4.016 billion, the Corporation was able to achieve record net income of $1.614 billion and remit a total of $1.537 billion in dividends to the Government, representing an increase of $26 million over the previous year. Indeed, Loto-Québec's principal performance indicators all point to modest but real growth, with revenues up by 2%, gross profit by 2.3%, and net income by 1.9%.

Our three primary business activity sectors again contributed significantly to our positive financial performance. For example, the renewal of product offerings and the continuous upgrading of the distribution network have proven to be profitable strategies for our Lottery sector. With respect to the Casino sector, the increase in overall revenues is all the more remarkable given the Casino de Charlevoix's difficult challenges related to the lengthy strike at the Fairmont Le Manoir Richelieu. For its part, the Video Lottery sector posted a 5% increase in its earnings. However, that figure represents a smaller increase than the 9.6% growth recorded during the previous fiscal year.

Achieved without expanding overall game offerings and within a market that has reached a state of maturity, the revenue increases during the year just ended testify to the outstanding professionalism and creativity of our personnel at all levels. Once again this year, both management and employees clearly demonstrated their ability to effectively meet the challenges confronting the Corporation and its subsidiaries with drive and dedication.

Withdrawal of the Peel Basin Project

Loto-Québec's proposed project involving the relocation of the Casino de Montréal into the heart of a world-class entertainment complex to be built in the Peel Basin area west of the Old Port certainly dominated the headlines this past year. As everyone now knows, we ended up abandoning these plans following the withdrawal from the project of our partner, the Cirque du Soleil.

The proposed entertainment complex was designed to serve as a major lever for the development of the local tourism industry and as a powerful catalyst for Montréal's economic growth. The realization of the project would have resulted in the revitalization of a large urban sector and contributed to the redevelopment of the riverside spaces advocated by the Société du Havre in its Vision 2025 Plan.

In light of its boundless creative capacities and unparalleled international reputation, the Cirque du Soleil lent a highly distinctive signature to our project and incomparable tourist drawing power. Without the support and active involvement of this prestigious partner, it would have been a far more difficult challenge for us to stand out within the ever more competitive environment that characterizes today's North American casino market. Given these circumstances, we made the strategic decision to cease pursuing the project. However, the question of the Casino de Montréal's competitiveness remains one of major concern.

Timely International Expansion

With the Corporation's revenues reaching a ceiling and its commitment to refrain from increasing overall game offerings remaining unchanged, the development of new business opportunities abroad has become a more and more interesting option, particularly because the international casino industry is in a healthy state of expansion. As such, this past December, the Québec Government authorized Loto-Québec to acquire an interest in Moliflor Loisirs, the third largest casino operator in France.

The Moliflor Loisirs group, in which we have invested $87 million, is an ably managed enterprise showing positive profit margins. Our partners across the Atlantic particularly appreciate the business model of Québec casinos and are counting on our expertise in certain specific areas to help secure the group's success.

Loto-Québec's interest in Moliflor will allow the Corporation to pursue its growth and increase its net income, while generating economic benefits for the province as a whole, especially for suppliers of professional services. In addition, it will stimulate the pride of personnel and expose our management to different practices which can only serve to continuously improve our ways of getting things done.

Reducing the Number of Video Lottery Terminals and Sites

Important steps were taken during the past fiscal year toward the implementation of a major part of our 2004-2007 Development Plan – the reduction of accessibility to video lottery terminals (VLTs) and the reconfiguration of the VLT network.

As of the end of fiscal 2005-2006, the VLT network consisted of 491 fewer terminals than at the start of the year, along with 145 fewer sites operating these units. The majority of the reductions came during the last four months of the year, when 303 machines and 79 sites were cut. This accelerated operation coincided with the implementation of two new voluntary withdrawal programs offered to our retailers since autumn 2005.

The programs are an integral part of a series of new measures fuelled by two fundamental objectives – to better control access to video lotteries and to promote responsible gaming behaviour among VLT players. One of these measures targets municipalities where the ratio of units per 1,000 inhabitants exceeds the Québec and Canadian averages. Another measure, a first within the industry, involves the implementation of a responsible marketing code comprised of some 20 different obligations that each bar owner must agree to honour. We are extremely proud to have adopted these new measures, which serve to enhance those already contained in our 2004-2007 Development Plan.

Network Reconfiguration

Loto-Québec's Development Plan released in May 2004 announced a reduction of at least 31% in the number of VLT sites and, consequently, the withdrawal of some 2,500 units. According to the criteria we established for selecting the sites to be removed from the network, we targeted those establishments equipped with one to four terminals operating in the following zones:

- Sectors where the average annual household income is less than $50,000 and where the ratio of terminals is higher than two per 1,000 inhabitants
- The four most densely populated municipalities in Québec – Montréal, Québec City, Longueuil and Laval

I am pleased to report that the objectives outlined in our Development Plan could very well be reached by 2007, as projected. We will then be in a position to undertake the final phase of our network reconfiguration – the establishment of new gaming centres – an initiative that the Québec Government approved in principle in November 2004.

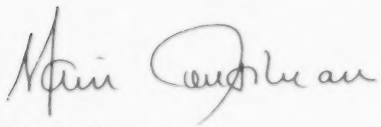
The four proposed gaming centres will house some 1,770 of the 2,500 VLTs removed as part of our 2004-2007 Development Plan. Two of these new establishments are to be located at existing racetracks in Trois-Rivières and Québec City respectively. A third will be established on the site of a new track to be built on the northern tip of Montréal, and the fourth will be set up in Mont Tremblant, where the target market will be made up primarily of tourists and vacationers. The construction of each of these centres will require a green light from the Government before proceeding.

The firm selected by the Government to operate the racetracks where three of the gaming centres will be located has now been announced – Attractions hippiques Québec. The Corporation is currently conducting discussions with the company regarding the nature of our contractual and operational relationship.

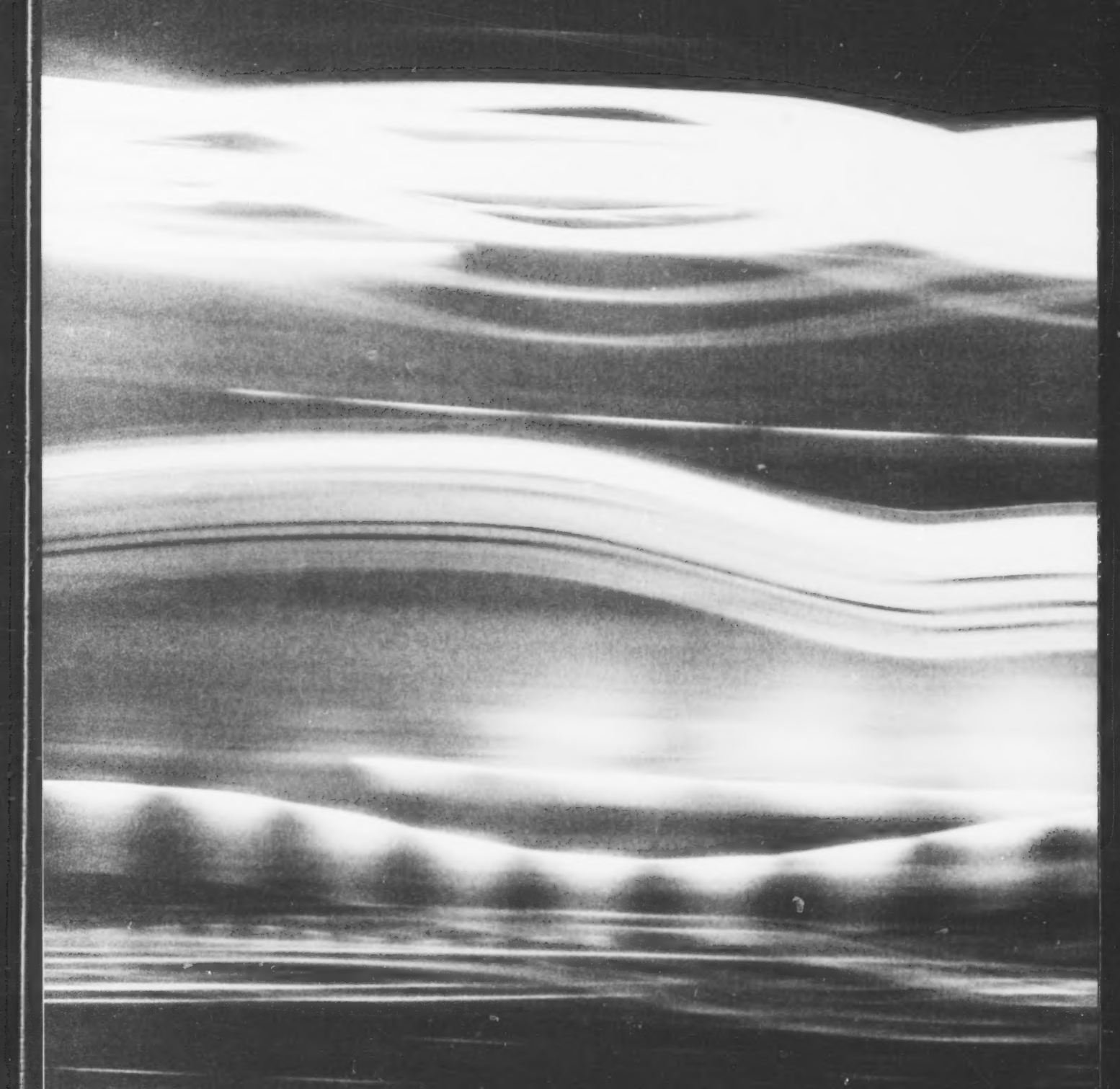
The concept that has been retained for our gaming centres corresponds to the latest entertainment trends and tendencies. As such, our establishments will, first and foremost, be positioned as "destinations". They will offer a varied range of games within an environment that will be governed by rigorous control, security and preventive measures. Studies have shown that the greater the accessibility to video lotteries, the greater the risks to public health in terms of excessive gaming. As such, we are confident that our gaming centres represent a solution that will serve to better control this recreational activity and help effectively combat the compulsive gambling phenomenon.

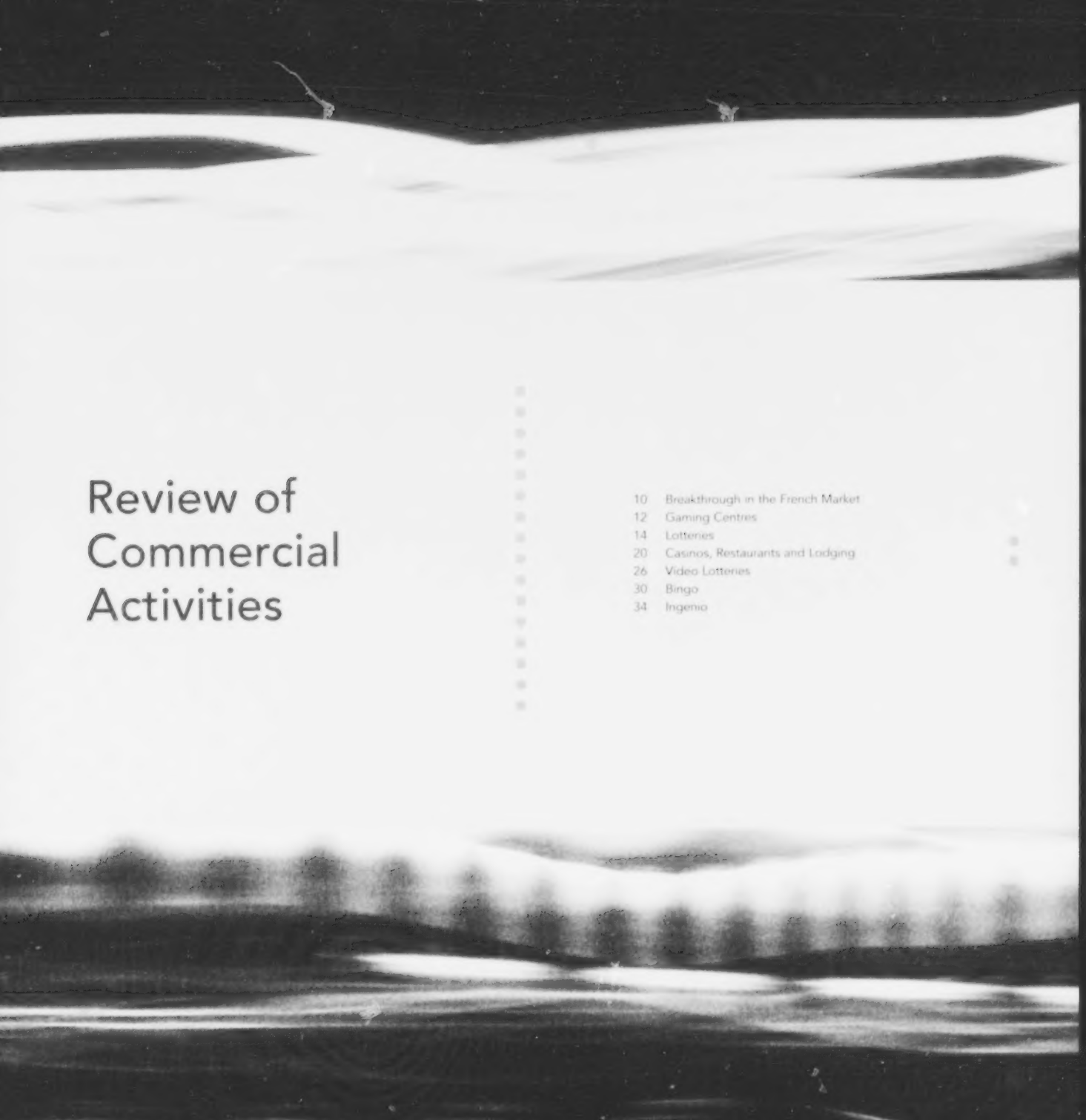
Maintaining a Healthy Balance for the Benefit of Our Society

For an organization like ours mandated to provide a source of entertainment for the community at large while maintaining a balance between an economic vocation and social responsibility, each year holds its share of triumphs and disappointments, gratification and frustration, of objectives achieved and efforts that need to be pursued. This past fiscal year was no exception, nor will the current one be. I would like to take this opportunity to thank all my colleagues on the Board of Directors and Management Committee for their diligent work and effective guidance. The contribution of each and every one of them was invaluable and will continue to be throughout the current fiscal year.



Alain Cousineau
Chairman,
President and Chief Executive Officer





Review of Commercial Activities

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Tréport
Etretat
St-Aubin
St-Pair
Gérardmer
Luxeuil
Port Crouesty
Les Sables d'Olonne
Santenay
Montrond
Uriage
St-Paul-les-Dax
St-Jean de Luz
Lamalou
Antibes La Siesta
Canet
Ax
St-Cyprien
Amélie
Argelès
Le Boulou

CASINOS MOLIFLOR

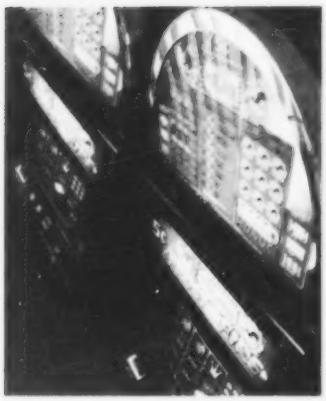
A Promising Breakthrough in the French Casino Market

On March 30, 2006, Loto-Québec's Casino Mundial subsidiary officially became a shareholder in the French Moliflor Loisirs group. The third largest casino operator in France, holding approximately 9% market share, this group owns 21 gaming houses, employs 1,740 individuals, and posted revenues of close to 260 million euros in 2005.

Announced in December 2005, Loto-Québec's investment of $87 million in Moliflor Loisirs was made as part of a financial arrangement also involving the European Bridgepoint Capital investment corporation, the Moliflor Loisirs group's management team and the Bank of Ireland. According to the terms of the transaction, Bridgepoint Capital obtained a 55% interest in the new enterprise, Loto-Québec acquired 35% (through its Casino Mundial subsidiary), and the Moliflor Loisirs group's management team obtained an interest of 10%.

Loto-Québec was approached with this acquisition opportunity in view of its recognized and proven innovativeness within the casino sector. The Corporation's partners appreciate its business model in particular, which integrates gaming, entertainment, restaurants and lodging with maximum synergy. In addition, Loto-Québec's experience in the design and development of casinos is much sought after, as is its expertise in the areas of security, information technology, marketing, and the prevention of compulsive gambling. A contract for the provision of services calls for operational collaboration between Loto-Québec and the Moliflor Loisirs group.

The combination of the Corporation's and its suppliers' extensive expertise with the diverse competencies of Moliflor Loisirs' management creates ideal conditions to maximize the group's revenues and value, while promoting its expansion within the French and broader European markets. After responding to a request for proposals in early 2006, Moliflor Loisirs is also among the finalists bidding for a contract to build a new casino in the City of Lille.



Société des salons de jeux du Québec inc.

Efforts on Track for the Opening of Gaming Centres

The youngest of Loto-Québec's subsidiaries created in 2005 to implement one of the strategic initiatives proposed in the Corporation's 2004-2007 Development Plan, the Société des salons de jeux du Québec is pursuing its efforts to establish a network of four gaming centres, of which three will be located next to racetracks. These controlled sites will integrate games with various other forms of entertainment. To house a portion of the video lottery terminals (VLTs) removed from bars, the four establishments will help to reduce access to these games, particularly in economically disadvantaged areas. The first gaming centres could open their doors by 2007.

The Société des salons de jeux du Québec falls under the authority of the Corporation's Senior Vice-Presidency of Major Strategic Initiatives. During the past fiscal year, the recently created subsidiary's team of managers and professionals focused their efforts primarily on:

- setting the new subsidiary's organizational structure into place
- detailing the components and mode of operation of future establishments
- defining the subsidiary's business relations with its partners
- participating in the independent committee formed by the Ministre des Finances in conjunction with the proposed sale of racetracks to the private sector
- assuring the harmonious integration of the gaming centres into the selected sites

A New Entertainment Concept

The gaming centres will offer the public a brand-new entertainment concept integrating various types of activities at controlled sites that promote healthy gaming behaviour. Restricted to individuals aged 18 and over, the establishments will exert tight entrance controls on their clientele with respect to verification of age and possible self-excluded status. Required to respect a specific dress code, gaming centre clientele will be assured of a quality and fully secure environment in which to enjoy their gaming experience.

In accordance with the proposals outlined in Loto-Québec's 2004-2007 Development Plan, the gaming centres will inherit the 430 VLTs currently in operation at racetracks, as well as some 1,770 of the 2,500 units withdrawn from the network of bars. All of the machines to be installed at these gaming centres will feature the same control mechanisms already found on the units in bars. In addition, the Corporation hopes to equip the machines with new mechanisms that will allow players to set limits on the amount of time they wish to play and maximum amount they wish to wager.

Gaming Centre Location

With the Québec Government's green light, it has been decided that three of the gaming centres will be located at the existing racetracks in Trois-Rivières and Québec City, and at the future track to be established at the northern tip of Montréal. Necessarily enclosed, these sites will offer restricted accessibility.

The gaming centres will be established in close collaboration with Attractions hippiques Québec, the firm that recently acquired and will be the future operator of the province's racetracks after agreeing to invest $280 million over the next five years to revitalize the horseracing industry in Québec. Attractions hippiques Québec will receive 22% on the revenues generated by VLTs installed at gaming centres next to its tracks.

Loto-Québec also anticipates establishing a fourth gaming centre in the Mont Tremblant region. A highly popular tourist destination, this area is a logical location for a gaming centre, whose entertainment offerings will effectively complement the recreational activities available in the area.

The reduction in the number of sites offering VLTs and the grouping of these units together at controlled sites are initiatives that have been welcomed by the public and municipal officials alike.

Priorities for 2006-2007

During the course of the current fiscal year, all efforts will be concentrated on opening the first gaming centres in 2007. At the same time, the Société des salons de jeux du Québec will issue a series of requests for proposals in order to entrust the majority of the operating activities of future establishments to private enterprise.

LOTTERIES

Confronting the challenges of a mature market

The maturity of the lottery market represents a formidable challenge and is a significant factor fuelling the motivation and mobilization of Loto-Québec's workforce. The new sales record set in 2005-2006 is proof positive that the Corporation's competent and dedicated employees have once again succeeded in overcoming the challenges facing them.

	2006	2005	Variation
Revenues	1,860.6	1,857.2	+ 0.2%

Mr. Roger Bellemare of Boucherville is a regular customer at Dépanneur Au Calumet, where he purchases his lottery tickets. On December 25, 1993, he pocketed a $100,000 grand prize thanks to his winning Extra number. It wasn't long before the lucky winner opted for early retirement.

The dynamism and creativity which have earned Loto-Québec its international reputation as a leader within its industry have also allowed the Corporation to record sales of more than $1.860 billion during fiscal 2005-2006, representing an increase of $3.4 million over the previous year. While seemingly modest at first glance, in actual fact, this increase marks a major achievement on the part of Lottery personnel, their colleagues in the corporate sector, and the organization's business partners.

New Products, Innovations and Milestones

The year just ended saw the introduction of a varied range of new products and innovations, as well as the recording of a number of major milestones. One such milestone occurred in autumn 2005, when the *Lotto 6/49* jackpot climbed to a record high of $54.3 million, shattering the previous record of $37 million held by *Super 7*. Moreover, on April 28, 2006, a Québecer from Saint-Félix-de-Valois walked away with a $30 million *Super 7* jackpot, thus becoming the biggest winner in the history of all the Corporation's lotteries.

From a new product standpoint, the past fiscal year saw the launch of the following games and innovations:

- the *Joker* and *Astro* online lotteries
- the addition of *Prédictions* to the sports betting lottery family
- two new "prize for life"– type games – *Noël à vie* and *Vacances à vie*
- *Gratteux*, *Blitz* and *La Matrice* instant series, offered at a cost of $1, $2 or $5
- three new instant lotteries inspired by well-known games of the same names – *Clue*, *Texas Hold'em Poker* and *Tetris*
- *Cyberslingo*, the first product to offer a scratch game and access code for a Web-based multimedia game on the same ticket
- the commemoration of Loto-Québec's 35th anniversary through the sale of *Collection souvenir* packs containing three sets of collector tickets evocative of years gone by, along with the production of a television program entitled "35 ans, ça change le monde"
- *Pizzamania*, a value-added $3 instant game offering a $3 discount valid at a well-known restaurant chain

Market Evolution and Major Accounts

Retail commerce is in a constant state of flux, as evidenced by the proliferation of big-box stores, the development of chains, and the increase in the number of outlets within the food and pharmaceutical distribution sectors. A perfect example is Couche-Tard's acquisition of Dunkin Donuts and the addition of gas pumps at some of its stores, clearly illustrating the extent of the changes currently underway and the speed at which they are occurring.

These transformations in retail commerce have obliged Loto-Québec to continuously adjust its positioning and distribution strategies. In so doing, agreements have been concluded with various retail chains – most notably within the hardware and renovation sector – which will see the implementation of sales pilot studies during the current fiscal year.

54.3 million dollars

The largest lottery jackpot in Canada, won with *Lotto 6/49* in autumn 2005

Large commercial groups that sell Loto-Québec products and are known as "major accounts" are occupying an increasingly important place within the Corporation's distribution network. While these groups accounted for 30% of lottery sales in 2001-2002, they generated 34% of sales in 2005-2006. Given their growing importance, Loto-Québec has implemented a number of organizational changes within its Commercialization and Major Accounts Department, which is now made up of three divisions – Convenience and Food Stores, Fuel and Pharmacies, and New Markets – with each of these divisions under the direction of an Account Manager.

Modernizing the Image of Points of Sale

Loto-Québec accentuated its efforts this past fiscal year to modernize its image at its various points of sale. For example, a pilot project was initiated involving the installation of 100 digital display units at major account outlets. This initiative constitutes one of the most ambitious commercial digital display projects undertaken in Québec to date. The technology used will allow the Corporation to disseminate information in a more dynamic and targeted fashion, including photos of winners, special event, weather and product information, jackpot amounts and more.

Loto-Québec also launched a comprehensive process to review all of its point of sale advertising materials. As a result of this initiative, the Corporation will be adopting a new signature and a more uniform design for all of its permanent elements.

Promoting Compliance with the Law

The prohibition of lottery ticket sales to minors continues to be one of Loto-Québec's major preoccupations. As such, a number of new initiatives were implemented at points of sale aimed at sensitizing retailers to their obligation to respect existing legislation. In addition, the mystery shopper program was resumed, and information bulletins were issued on a regular basis to serve as a reminder to lottery sellers. The Corporation intends to accentuate such measures during 2006-2007.

Draws and Televised Games

The year just ended saw some important developments with respect to Loto-Québec's draws and televised games. In line with its commitment to transparency and integrity, the Corporation implemented a series of new control measures, including the optimization of computer verification processes and the addition of new state-of-the-art ball machines.

In addition to the special program commemorating the 35th anniversary of its first ever draw, Loto-Québec broadcast two other galas on the TVA network this past year – *Célébration 2006* and *La Poule aux œufs d'or spécial gala* – both of which attracted audiences in excess of 1,000,000. Moreover, the weekly edition of *La Poule aux œufs d'or* surpassed the $100 million mark in prizes paid out on TV since the game was introduced in 1993.

30 million dollars

The largest lottery jackpot ever awarded in Québec, won with *Super 7* on April 28, 2006

Awards and Other Distinctions

Over the course of the past fiscal year, the Québec advertising industry presented *Lotto 6/49*'s "Always be nice" campaign two Gold Roosters and two Créa awards. The Canadian industry also awarded the campaign a silver Cassies. For their part, the radio spots produced for *Super 7* and the *Vlan!* instant lottery earned a Créa award and Silver Rooster respectively, while an ad for the *Loto* instant game received two distinctions in recognition of its quality and creativity. *Vlan!* was also ranked as being among the best five new instant games in North America at the annual convention of the North American Association of State and Provincial Lotteries held in Minneapolis in September 2005.

Customer Service

During fiscal 2005-2006, close to 400 winners received a warm welcome at the studios where the Corporation records its television broadcasts, while 1,274 were greeted with open arms at the Millionaire Lounges in Montréal and Québec City. According to a survey conducted among these winners, Loto-Québec earned a very high rate of satisfaction with respect to the reception, efficiency and courtesy extended by its personnel. Since its creation in 1969, the Corporation has crowned close to 1,000 millionaires.

Commissions to Retailers

(in millions of dollars)

2001-2002	123.2
2002-2003	125.9
2003-2004	123.6
2004-2005	126.7
2005-2006	**126.9**

Financial Support to NPOs

	Number of NPOs	In thousands of dollars
2001-2002	1,174	10.179
2002-2003	1,282	10.469
2003-2004	1,369	9.923
2004-2005	1,415	10.463
2005-2006	**1,443**	**10.139**

Distribution of Retailers by Business Category

As at March 31, 2006

	Number	%
Tobacco and Convenience Stores	5,113	52.0
Food	1,893	19.2
Other Service Businesses	1,506	15.3
Pharmacies	893	9.1
Miscellaneous	280	2.8
Kiosks	121	1.2
Itinerant Sellers	37	0.4
Total	9,843	100.0

Distribution of Retailers and Terminals by Region

As at March 31, 2006

	Number of Retailers	%	Number of Terminals	%
Montréal and Northwestern Québec	3,307	33.6	2,941	34.3
Montréal and Southeastern Québec	3,412	34.7	3,050	35.5
Québec City and Eastern Québec	3,124	31.7	2,593	30.2
Total	9,843	100.0	8,584	100.0

1,443

The number of non-profit organizations enjoying the benefits of lottery sales

Lotteries

As at March 31 *(in thousands of dollars)*

	Sales 2006	Sales 2005	Variation	Prizes Awarded 2006	Prizes Awarded 2005	Variation
Online Lotteries						
Lotto 6/49	502,306	511,177	(8,871)	236,295	240,238	(3,943)
Super 7	243,266	257,742	(14,476)	136,847	145,496	(8,649)
Québec 49	52,367	55,149	(2,782)	28,169	23,007	5,162
Extra	143,764	145,984	(2,220)	64,606	65,022	(416)
Banco	123,819	121,765	2,054	61,179	60,133	1,046
La Quotidienne	32,963	30,784	2,179	14,083	13,310	773
L'Ours Chanceux	1,919	6,702	(4,783)	1,736	4,364	(2,628)
Joker	8,030		8,030	4,580		4,580
Astro	3,472		3,472	1,699		1,699
Subtotal	1,111,906	1,129,303	(17,397)	549,194	551,570	(2,376)
Instant Lotteries						
Regular	154,650	157,230	(2,580)	87,735	91,555	(3,820)
Entertainment	400,284	396,966	3,318	220,192	219,975	217
Televised	10,008	8,956	1,052	5,496	4,988	508
Multimedia	3,848	1,151	2,697	2,039	594	1,445
Subtotal	568,790	564,303	4,487	315,462	317,112	(1,650)
Traditional Lotteries						
La Mini	12,490	12,975	(485)	5,495	5,709	(214)
Teleactive	57,110	57,823	(713)	32,848	34,975	(2,127)
Special Editions	62,780	63,665	(885)	36,337	38,792	(2,455)
Subtotal	132,380	134,463	(2,083)	74,680	79,476	(4,796)
Sports Betting	47,554	29,156	18,398	27,014	16,239	10,775
Total	1,860,630	1,857,225	3,405	966,350	964,397	1,953

17 billion dollars

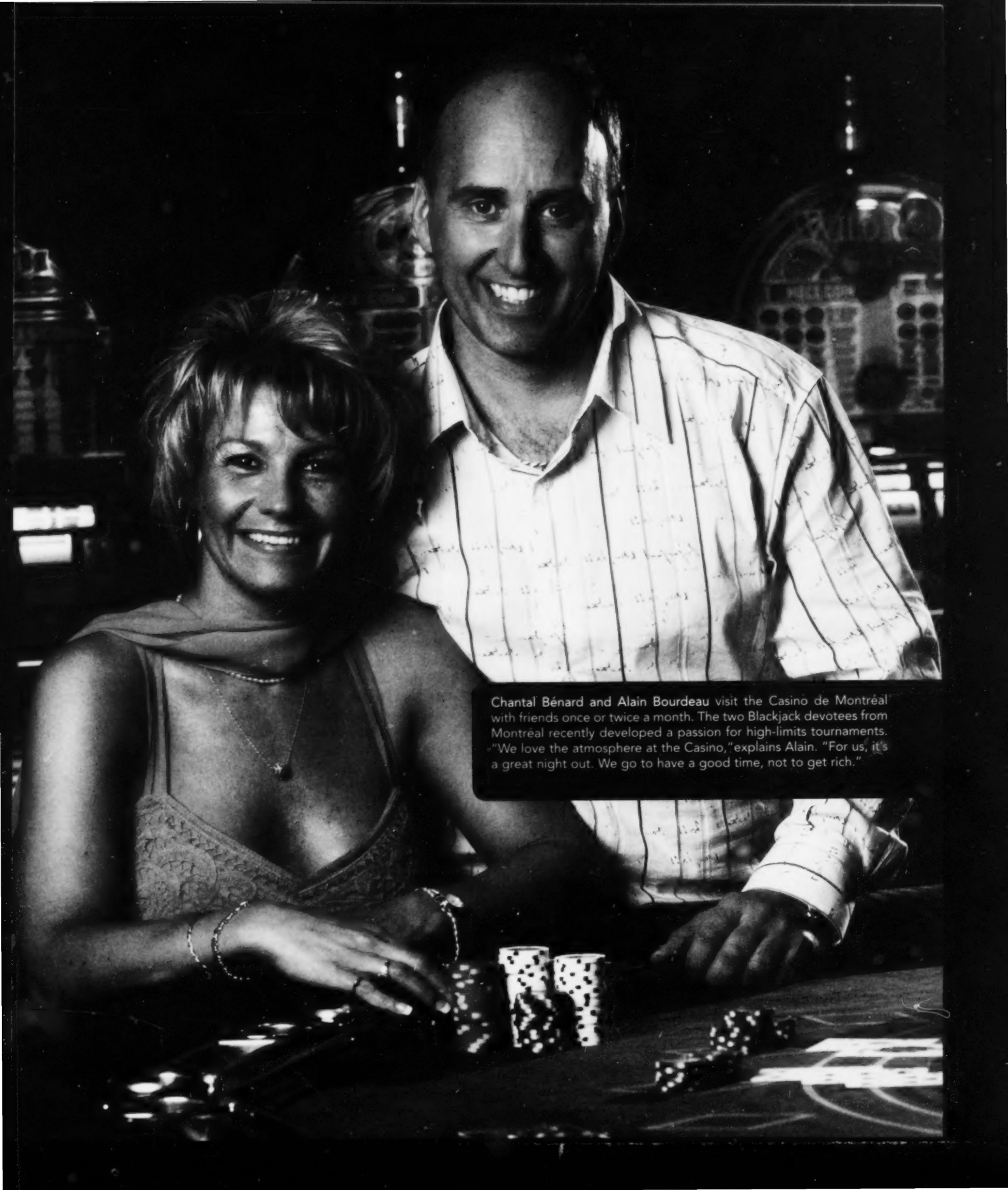
The total value of prizes awarded to winners since Loto-Québec's beginnings in 1970

CASINOS
RESTAURANTS AND LODGING

Securing a competitive edge through quality of service

In light of the proliferation of casinos in Northeastern U.S. and the fierce competitive environment they engender, the Société des casinos du Québec must strive to provide the utmost in quality and customer service. This strategic positioning and effective participative management explain the increased revenues posted by its establishments during the past fiscal year.

	2006	2005	Variation
Revenues	859.3	848.1	+ 1.3%



Chantal Bénard and Alain Bourdeau visit the Casino de Montréal with friends once or twice a month. The two Blackjack devotees from Montréal recently developed a passion for high-limits tournaments. "We love the atmosphere at the Casino," explains Alain. "For us, it's a great night out. We go to have a good time, not to get rich."

Loto-Québec's Société des casinos du Québec (SCQ) subsidiary oversees the operations of the province's three casinos – the Casino de Montréal, the Casino de Charlevoix, and the Casino du Lac-Leamy. The Corporation's Resto-Casino subsidiary is responsible for the management of all bars and restaurants located in the gaming houses, as well as for the operation of the Hilton Lac-Leamy Hotel.

During the past fiscal year, the SCQ generated total sales of $758.5 million, representing an increase of 0.9% over the previous year. For its part, Resto-Casino posted total earnings of $100.9 million during 2005-2006, up 4.9% as compared to the previous reporting period.

Last year's earnings rose slightly despite a general decline in the number of tourists visiting Québec, particularly those originating from the United States. Of course, this decline had an impact on the Corporation's casinos, which recorded an overall decrease of 10.1% in American visitor traffic. The year's increase in earnings is even more noteworthy in view of the increasingly competitive market environment and the fact that there was no actual increase in total game offerings.

The growing number of casinos, particularly in the north-eastern part of the continent, demands that Loto-Québec work harder than ever to stand out from the competition. That is why the SCQ has adopted its strategic positioning aimed at providing its clientele with a superior experience and level of service. Over the course of the next few years, the subsidiary will continue to accentuate these efforts within all of its establishments.

Major Economic Spin-Offs

During the past fiscal year, the SCQ acquired close to $102 million worth of goods and services, not including construction and renovation contracts. Similarly, Resto-Casino remained an important customer for a large number of Québec-based companies in the agro-food sector, purchasing some $53.7 million worth of supplies during the reporting period.

The SCQ was also an active contributor to the socio-economic development of the province's various communities and regions through the sponsorship of local, regional and international events. These included the Gatineau Hot Air Balloon Festival, the Canadian Tulip Festival, Les grands feux du Casino du Lac-Leamy, the Festival international du Domaine Forget, the International de l'art vocal de Charlevoix, Rêves d'automne – Festival paysages en peinture in Baie-Saint-Paul, the Festival du Vieux-Port de Chicoutimi, the Festival International des rythmes du monde de Saguenay, the Rogers Cup, the Grand Prix of Canada, and the Montréal Molson Indy.

Participative Management

Four years ago, the SCQ adopted a more participative approach to management involving a fundamental change in operating methods, the establishment of concrete business plans, and the effective mobilization of all personnel. This past fiscal year, management undertook a review of the effectiveness of these initiatives to date.

71 dollars

The average amount spent by Québec casino patrons per visit

During fiscal 2005-2006, the three casinos held some 15 continuous improvement workshops based on the *Kaizen* method, bringing the total number of sessions held over the past two years to 60. These workshops, which ran over the course of several days, brought together employees from different operating sectors to try to find tangible solutions to specific problem situations. In all, SCQ and Resto-Casino management and staff received more than 9,000 days of training over the past reporting period.

Records and Distinctions

The exceptional dynamism and professionalism of Resto-Casino personnel were yet again recognized in numerous ways during the past year. For example, the Casino du Lac-Leamy's *Le Baccara* Restaurant and the Casino de Montréal's *Nuances* were the recipients for the sixth consecutive year of the prestigious *Five Diamond* rating presented by the CAA and AAA automobile associations. Synonymous with high gastronomy, this distinction is among the most coveted in the industry, with only 10 restaurants in Canada (including three in Québec) having earned it. *Nuances* and *Le Baccara* were also the recipients of the 2005 *Best of Award of Excellence* presented by *Wine Spectator* Magazine in recognition of their outstanding wine lists.

At the Lac-Leamy Complex, the Hilton Lac-Leamy earned two special distinctions from the Hilton Corporation this past fiscal year. For the third time since its opening in 2001, the Hotel received the *Best Overall Performance (Connie)* Award, ranking the establishment at the top of the chain's 240 North American hotels with respect to quality and performance.

In addition, the Hilton Lac-Leamy also earned the CAA/AAA's *Four Diamond* rating for the superior quality of its customer service. And, for its part, Tourisme Québec rated the Hotel a *Five Star* establishment in recognition of its exceptional accommodations and service.

For their part, Resto-Casino's talented and dedicated employees also continued to make their mark at various culinary competitions held during the course of the year.

Finally, the Casino de Charlevoix and the Fairmont Le Manoir Richelieu Hotel garnered numerous honours and distinctions as well:

- *Le Charlevoix* Restaurant and the Fairmont Le Manoir Richelieu were awarded the prestigious *Four Diamond* rating by the CAA automobile association.
- *Le Charlevoix* was also recognized by *Wine Spectator* Magazine for the excellence of its wine list.
- The Fairmont Le Manoir Richelieu earned a *Five Star* rating from Hébergement Québec.
- The outstanding quality of Le Manoir's service was honoured by the *Mobil Travel Guide* with a *Three Star* rating.

These awards and special designations serve to underline the exceptional professionalism of the establishments' personnel, as well as their unparalleled commitment to customer service.

400

The number of employees assigned to security duties at the three casinos

Casino de Montréal

The Casino de Montréal posted a 1.3% increase in its earnings and a decline of 0.7% in visitor traffic during fiscal 2005-2006. Having played host to over 67 million visitors since first opening its doors, it continues to be a major contributor to the city's tourism industry.

Over the past reporting period, the Casino pursued its practice of organizing fringe activities in conjunction with special events. These included the Chinese New Year, the Grande Nuit F1, boxing galas, and the Miss Universe Canada Pageant.

From an entertainment standpoint, the Cabaret du Casino presented 15 dazzling productions during the year. A total of 406 shows were staged to the delight of audiences totalling more than 185,600. These numbers again attest to the outstanding quality of the year's performances, performers and producers, all of which hail from Québec.

Casino de Charlevoix

The Casino de Charlevoix saw its revenues decrease by 3.3% last year as compared to the previous year. Nevertheless, the Casino's performance was quite remarkable given the labour conflict that persisted for close to seven months at the Fairmont Le Manoir Richelieu. Due to this strike, the gaming house saw its visitor traffic decline by 16.1%.

Fiscal 2005-2006 marked the first edition of the pyro-musical extravaganza, *Ode to Winter*. Having attracted more than 4,000 enthusiastic spectators, the success of this outstanding event reflects the excellent synergy that exists between the Casino, the town of La Malbaie, and the various partners within the region's tourism industry.

11 million

The average number of visits paid to the three casinos each year

Casino du Lac-Leamy

The Casino du Lac-Leamy's revenues rose by 0.8% from the previous year, attributable primarily to the 1.6% increase in visitor traffic at the gaming house. One of the key events that marked fiscal 2005-2006 was the appointment of new General Manager Kevin Taylor, who previously held the same position at the Hilton Lac-Leamy.

The Casino actively pursued its advertising efforts within the Ontario market through the promotion of its new "Lac-Leamy Complex" signature. Under the theme of *The Lac-Leamy Experience*, the gaming house implemented a number of promotional initiatives to highlight the special synergy and combined offerings of the Casino and the Hilton Lac-Leamy Hotel. Thanks in large part to these efforts, the number of visitors from Ontario grew by 2.1%.

Finally, the year saw the Hilton Lac-Leamy renew its collective agreement with its operations personnel. This new agreement will remain in effect for a period of three years.

Total Revenues

As at March 31 *(in millions of dollars)*

	2006	2005	Variation
Casino de Montréal	500.8	494.3	1.3%
Casino de Charlevoix	47.6	49.2	-3.3%
Casino du Lac-Leamy	210.1	208.4	0.8%
Total	758.5	751.9	0.9%

Visitors

As at March 31

	2006	2005	Variation
Casino de Montréal	6,244,842	6,287,623	-0.7%
Casino de Charlevoix	1,025,147	1,221,986	-16.1%
Casino du Lac-Leamy	3,391,541	3,338,622	1.6%
Total	10,661,530	10,848,231	-1.7%

LAC-LEAMY CASINO 10 *L'expérience totale*

3.1 million dollars

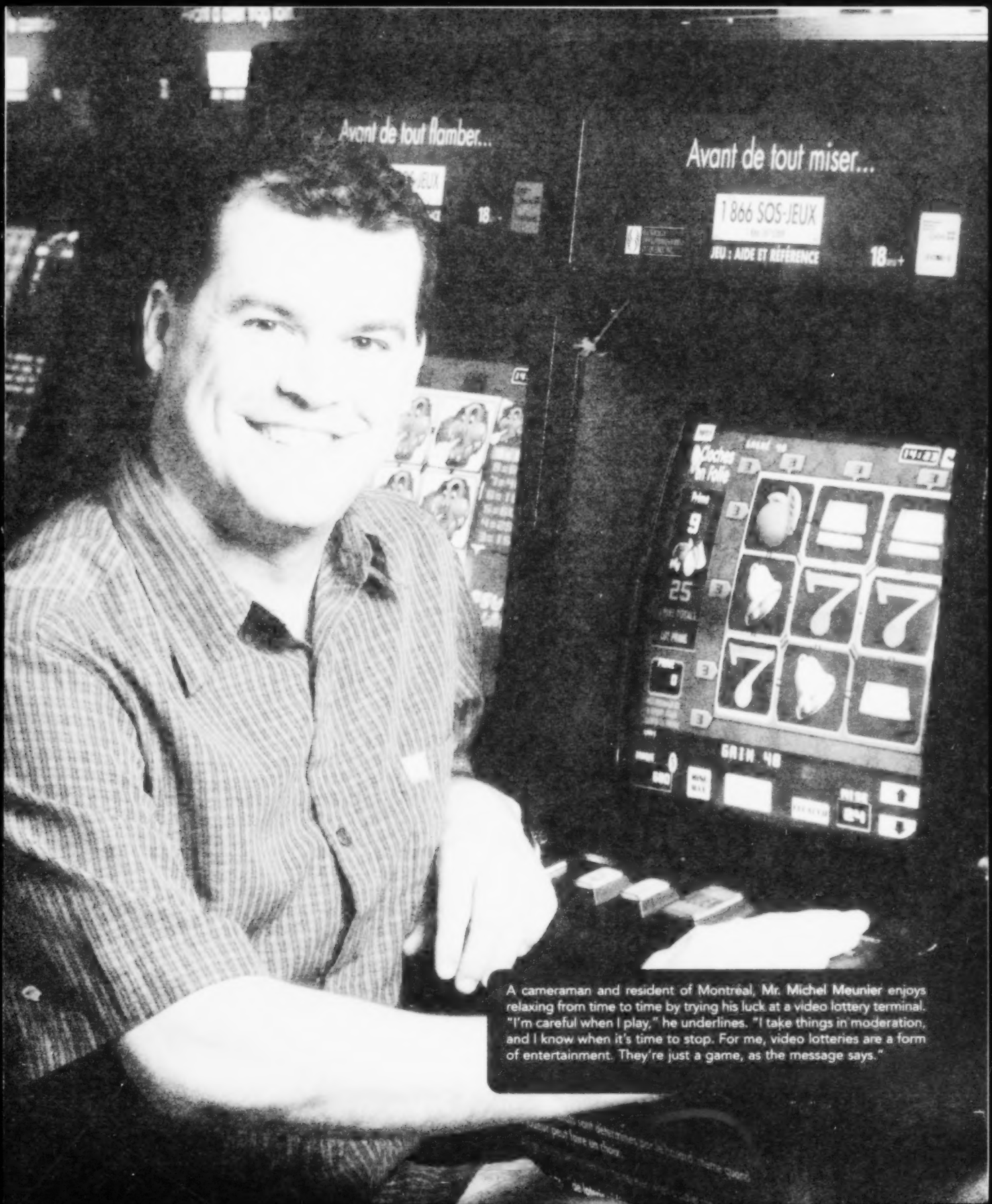
The largest slot machine jackpot ever awarded at a Québec casino, won on September 23, 2003 at the Casino de Montréal

VIDEO LOTTERIES

Demonstrating responsible management with new measures

The past fiscal year marked the introduction of a range of effective new measures to fulfill its commitment to managing its network of video lottery terminals responsibly. These measures included the implementation of a new marketing code, further reductions in the number of sites and terminals, the re-launch of the retailer training program, along with others targeting specific geographical zones. In conjunction with the changes made to its network, the overall territory has been re-divided and new operating methods have also been adopted.

As at March 31 (in millions of dollars)	2006	2005	Variation
Revenues	1,298.8	1,236.9	+ 5.0%



A cameraman and resident of Montréal, Mr. Michel Meunier enjoys relaxing from time to time by trying his luck at a video lottery terminal. "I'm careful when I play," he underlines. "I take things in moderation, and I know when it's time to stop. For me, video lotteries are a form of entertainment. They're just a game, as the message says."

The Société des loteries vidéo du Québec (SLVQ) earned total revenues of $1.299 billion and net income of $860.4 million during fiscal 2005-2006, representing respective increases of 5% and 6.3% as compared to the previous year (revenues rose by 9.6% during 2004-2005). In addition, the SLVQ paid out $285.7 million in commissions to owners of establishments operating video lottery terminals (VLTs).

Responsible Marketing Code

During the past year, the SLVQ designed and implemented a new code of responsible marketing aimed at its retailers. This code encompasses a total of 20 obligations that each retailer must agree to respect. Unique within the industry, the initiative is geared to promoting the responsible management of VLTs and to offering game enthusiasts a quality entertainment product within a pleasant environment. The code must be posted at all times in each establishment.

As part of this commitment to assuring responsible management, the SLVQ also adopted new commercial signs to replace those originally installed in 1997. Low-key and discrete, the new signs and displays will be implemented progressively and uniformly throughout the entire network.

New Programs for the Removal of VLTs

Two new programs for the voluntary withdrawal of VLTs were announced in autumn 2005. One of these is targeted at retailers operating a total of five terminals, and the other at proprietors of multiple sites (10 VLTs or more) who were given the opportunity to relinquish up to 10 units. To remain in effect for a period of 12 months, the programs offer retailers who agree to part with their machines financial compensation equivalent to one year's commission.

As of March 31, 2006, Loto-Québec's VLT network consisted of 13,516 terminals distributed among 3,122 sites. These figures represent a 5% decline in the number of units and a 15% drop in the number of sites over the course of the past three years.

New Training and Awareness Offensive

The SLVQ developed a new version of its training program known as *Taking risks is no game* and offered to licensed establishments within the VLT network in 2001 and 2002. A collaborative effort of the Fondation Mise sur toi and Université Laval's Centre québécois d'excellence pour la prévention et le traitement du jeu, this updated version will be presented to some 10,000 individuals working in the network's bars, brasseries and taverns.

The objective of this program is to allow retailers and their employees to develop a better understanding of the help that can be offered to players in difficulty. Of course, this does not mean that bar employees are any substitute for or expected to play the role of professionals specialized in the field of problem gaming.

The Fondation Mise sur toi is also looking at additional programs and preventive measures in areas where the ratio of VLTs exceeds the provincial average. As such, discussions are currently underway with the appropriate parties in the targeted areas of James Bay, Cap-aux-Meules, Maniwaki, Magog, Parent, Schefferville and Val-d'Or. The new programs are slated for implementation during the current year.

92%

The average VLT payout rate; for each dollar wagered, the player wins an average of $0.92

New Operating Methods

The cutting back of its VLT network and reconfiguration of existing units has, in turn, led the SLVQ to modify certain methods of operation. For example, the original 10 administrative regions have been re-divided into four individual territories, each home to an equal number of VLTs and sites.

Other changes were also made with respect to the redefinition of services to be outsourced, and a request for proposals has been issued regarding new ways of operating which will come into effect as of July 2006. Moreover, the role of the VLT depository will henceforth be limited to technical services, while representation services (including retailer training) will be among the responsibilities of the SLVQ, which will call upon the involvement of contract personnel.

Pursuing Responsible Management

The SLVQ is fully committed to maintaining its leadership position within the industry in terms of responsible VLT management. In order to fulfill this commitment, the subsidiary intends to continue to take concrete actions, including reducing accessibility to VLTs, introducing new preventive measures, implementing new training programs, and continuously monitoring and evaluating retailer performance.

Video Lotteries

As at March 31, 2006

	2006
Number of Terminals	13,516
Number of Sites	3,122
Number of Terminal per Site *(average)*	4.3
Number of Terminals per 1,000 Residents	1.9
Commissions to Retailers *(millions)*	285.7

Distribution of Sites and Terminals by Region

As at March 31, 2006

Region	Number of Terminals	Number of Sites
Laval, Laurentides, Lanaudière	2,195	476
Montréal	4,001	803
Québec City, Chaudière, Appalaches	1,607	393
Mauricie, Bois-Francs	927	233
Estrie	777	192
Saguenay, Lac Saint-Jean, North Shore	674	185
Lower Saint-Lawrence, Gaspésie, Îles-de-la-Madeleine	435	138
Abitibi, Témiscamingue, Northern Québec	439	109
Montérégie	1,683	414
Outaouais	778	179
Total	**13,516**	**3,122**

10,000

The approximate number of employees working at licensed establishments within the VLT network who will benefit from the new *Taking risks is no game* training program

Increased Revenues Within a Difficult Context

The Société des bingos du Québec (SBQ) is responsible for marketing network bingo games, with all of its profits redistributed to non-profit organizations (NPOs) licensed to operate these games. Despite player traffic having shown a decline in fiscal 2005-2006, the SBQ posted a significant increase in its revenues. By reversing the negative trend that has prevailed since 2001, the subsidiary was able to contribute a record $11.4 million to NPOs over the course of the past year.

As at March 31 (in millions of dollars)	2006	2005	Variation
Revenues	39.9	36.6	+ 8.9%
Contributions to NPOs	11.4	10.2	+ 10.9%

Ms. Annie Lamontagne is passionate about bingo. That's why, two or three times a week, the Saint-Léonard resident can be found at the Bingo Hochelaga hall in Montréal, where she enjoys playing with good friends in a warm and family-like atmosphere. According to Ms. Lamontagne, "playing bingo is a simple and affordable way to unwind."

The SBQ offers three different network bingo products – *Le Petit Tour* in the afternoon, *Le Grand Tour* in the evening, and *Le Tour Éclair* played both afternoons and evenings. These products are available at some 125 bingo halls connected to the SBQ's network, including the biggest halls in Québec.

At the end of its eighth year of operations, the bingo subsidiary posted total revenues of $39.9 million, representing an appreciable increase of $3.3 million, or 8.9%, over the previous reporting period. Of the $11.4 million contributed to NPOs holding bingo licenses, $10.6 million went to 674 organizations associated with the SBQ network, and $800,000 was distributed among another 337 organizations holding bingo games in non-participating halls.

Since starting operations in 1997, the SBQ has awarded a total of $82.3 million to non-profit organizations licensed to operate bingo, representing approximately $10 million per year. These contributions are in line with the subsidiary's initial targets.

Declining Bingo Hall Traffic

For several years now, the bingo industry in Canada has seen a major drop in revenues derived from its traditional products – a phenomenon directly attributable to the decline in bingo hall attendance. Once again this year, Québec has been no exception when it comes to this trend, with attendance at the province's bingo halls down by 1.4%. Despite this tendency, however, the SBQ managed to maintain consumer interest thanks to its various product improvements.

Profitable Innovations

Network products underwent a veritable process of rejuvenation over an 18-month period preceding the end of the past fiscal year. After making certain modifications to its afternoon product *(Le Petit Tour)*, the SBQ remodelled its evening game *(Le Grand Tour)* as well, much to the delight of its clientele.

Featuring an enhanced jackpot starting at $50,000, and with the addition of a face card game offering a prize of $1,000, *Le Grand Tour*'s new formula launched in May 2005 received a highly positive response from bingo enthusiasts. Subsequent to these changes, average spending per player on this product rose from $4.36 to $4.70.

The SBQ's renewal efforts also included the introduction of a new game in February 2006 – *Le Tour Éclair* – as a replacement for the optional game of *Éclair*. Based on a truly original design, *Le Tour Éclair* offers bingo enthusiasts the opportunity to play a conventional network bingo game, as well as an instant scratch game with its own prizes up for grabs. The hybrid character of this new game has inspired a high degree of interest among bingo clientele.

Technological Developments

The past fiscal year saw the integration of a new prize structure module into the SBQ's computer platform, an important technological development that made the launch of the new *Tour Éclair* game possible. In addition, the integration of this new module also allowed for *Le Petit Tour* to offer major cumulative bonus prizes on a regional level. Thanks to these new functionalities, the SBQ's operating system is now more flexible and the number of technical incidents and problems has been reduced.

Offering a More Entertaining Gaming Experience

The positive performance of the past year was not the result of simple good fortune, but due rather to the SBQ's concerted efforts to enhance the entertainment value of bingo and attract a new clientele to its halls. These efforts took various different forms, including numerous promotions, increased advertising to promote large jackpots and other prizes, *Place à l'artiste* shows presented in certain halls during the summer season, and *Célébration au gagnant* events to highlight major wins by players. In short, the SBQ spared

32,074

The number of network bingo sessions held during the past fiscal year

no effort in pursuing its commitment to supporting hall operators, increasing the popularity of bingo within the province, and promoting a more favourable image in order to put bingo on a more solid commercial footing.

Outlook for 2006-2007

Fiscal 2005-2006 was indeed an exceptional year for the SBQ on various fronts. However, a new reality promises to have a significant impact on the bingo industry over the course of the current year – the Act to Amend the Tobacco Act in effect since May 31, 2006. More specifically, these changes to tobacco legislation are expected to have important repercussions on bingo hall attendance, as 46% of bingo players are smokers. In view of the situation, the SBQ has taken the initiative of organizing productive exchanges with its partners in order to find ways to help smokers, without compromising the comfort of non-smokers and in full compliance with the new legislation.

Finally, the subsidiary intends to pursue its endeavours to offer the most attractive network products possible. In so doing, it will continue to implement new initiatives aimed at stimulating interest in the game, attracting new clientele, and revitalizing the industry for the ultimate benefit of hundreds of non-profit organizations throughout the province.

Sales by Region

April 1, 2005 – March 31, 2006

Region	Participating Halls	Events	Participating NPOs*	Net Sales	Commissions Paid to Operators	Amounts Distributed to Participating NPOs		
						Sums Paid According to Agreement	Additional Payments up to 100% of SBQ Net Profits	
				$	$	$	$	$
Lower Saint-Lawrence	4	557	27	263,827	12,213	51,971	17,884	
Québec City	11	3,782	77	4,326,079	256,898	853,383	293,243	
Chaudière-Appalaches	7	1,045	24	1,017,429	53,693	200,692	68,966	
North Shore	2	151	4	119,467	4,065	23,497	8,098	
Saguenay-Lac-St-Jean	5	973	31	782,879	42,185	154,469	53,067	
Mauricie, Bois-Francs	6	1,666	25	2,129,490	126,072	420,161	144,348	
Estrie	3	925	20	1,122,366	67,103	221,258	76,080	
Montérégie	19	5,468	114	7,913,046	458,699	1,560,290	536,386	
Montréal	24	7,323	147	9,606,763	565,443	1,895,264	651,195	
Abitibi-Témiscamingue	7	1,016	20	861,582	47,640	169,915	58,402	
Outaouais	6	1,281	25	1,222,131	67,374	240,856	82,842	
Laval	5	2,211	43	2,908,763	172,915	573,620	197,171	
Laurentides	10	2,932	57	4,154,911	241,969	820,031	281,641	
Lanaudière	12	2,064	41	2,884,083	158,461	568,494	195,498	
Gaspésie	6	680	19	544,060	21,980	106,952	36,879	
Total *(excluding the fund)*	127	32,074	674	39,856,876	2,296,710	7,860,853	2,701,700	10,562,553
Fund: Amount distributed to non-participating NPOs								798,938
Grand total for NPOs								11,361,491

** Based on the most recent RACJ data*

INGENIO

Setting sights on new directions for research and development

Recognized on the international scene for its expertise in research and the development of innovative products for the lottery industry, Ingenio is expanding its sphere of activity, most notably by collaborating with the Société des casinos du Québec and the Société des bingos du Québec to renew their game offerings. Constantly in search of new export opportunities for its products, Loto-Québec's research and development subsidiary is also committed to safeguarding and adding value to its intellectual property.

	2006	2005	Variation
Revenues	1.4	1.1	+ 26.5%

In January 2006, Ms. Johanne Paul of Otterburn Park won a $25,000 grand prize playing the multimedia game, Casteldor 2. An occasional instant lottery player, Ms. Paul sometimes also likes to try her hand at cyberlotteries. "It's always for the simple pleasure of playing," she emphasizes.

Having acquired a wealth of expertise in the workings of foreign markets, Ingenio is in an excellent position to assure the protection and valorization of its intellectual property rights. In autumn 2005, for example, the subsidiary awarded a license for the use of its patents to Gtech, a prominent American supplier of products and services to lottery corporations worldwide. Talks are also underway with other industry suppliers interested in obtaining similar licenses.

Working Hand-in-Hand with Other Subsidiaries

On behalf of the Société des casinos du Québec, the Ingenio team defined promising avenues for development that could lead to the creation of original new interactive games integrating multimedia. An initial design is slated to be put to the test in Québec casinos during the course of the current fiscal year, and subsequent marketing efforts are expected to yield attractive returns in the form of license fees.

Over the past fiscal year, Ingenio also worked closely with the Société des bingos du Québec (SBQ) on the creation of a database to facilitate the exchange of information between key Canadian players within this activity sector. Moreover, Ingenio played an integral role in the development of an application to allow for the promotion of bingo games on the SBQ's Web site.

For its part, the Corporation's Lottery sector added *Cyberslingo®* to its slate of instant cyberlotteries in autumn 2005. A multimedia lottery developed by Ingenio, *Cyberslingo®* has been enjoying tremendous success within various American lottery markets.

In addition, upon the request of the Fondation Mise sur toi, Ingenio supervised the design and development of the *8/8 Winning Combination* information console. This interactive console created for use in Québec's casinos enables players to profile their individual gaming habits. The Corporation intends to fully assess the export potential of this innovative new product.

A New Family of Games

The development and production of new interactive lotteries remains one of Ingenio's most fundamental preoccupations. As such, the past fiscal year gave birth to a number of new interactive multimedia products, including some utilizing a thematic approach.

Among these, Ingenio created a family of games known as *Jeux Éclair* that differ from other multimedia lotteries in their level of simplicity and brief playing time (maximum of two minutes). Like other multimedia lotteries, however, these new games require an access code obtained when purchasing an instant lottery ticket with a predetermined outcome. Consumers may choose the game(s) they wish to play from a menu accessible on a given lottery corporation's Web site.

Jeux Éclair were created in response to the needs expressed by Loto-Québec's partners outside the province during a series of group discussions. The development of this type of lottery will allow Ingenio to further its efforts to take advantage of effective new modes of distribution.

19

The number of games that make up Ingenio's multimedia product portfolio

Revenues Continuing to Rise
During the past fiscal year, Ingenio posted total earnings of $1.4 million, representing an increase of 26.5% as compared to the previous reporting period and reflecting the growing success of the subsidiary's products. Royalties from outside Québec accounted for $1 million, up 11% from the previous year.

Undeniably, fiscal 2005-2006 confirmed the central role Ingenio's interactive lotteries play within the marketing plans of lottery partners outside the province. For instance, the Oregon Lottery presently offers six of Ingenio's products via download from its Web site. For its part, the Atlantic Lottery Corporation is promoting four games, the New Jersey Lottery offers three, and the Western Canada Lottery Corporation and British Columbia Lottery Corporation each offer one. Furthermore, the Maryland Lottery is expected to launch *Cyberslingo®* within its jurisdiction during 2006-2007, and the new *Jeux Éclair* product family promises to further extend Loto-Québec's list of partners.

Sustained Support of the Multimedia Industry
Since its creation in 1998, Ingenio has clearly demonstrated its firm commitment to supporting Québec's multimedia industry. In June 2005, under the banner of the Québec Entrepreneurship Competition, Ingenio awarded $5,000 to VYV Corporation in recognition of the best interactive multimedia entertainment project. The subsidiary reaffirmed its commitment to this major national competition through its support of the 2005-2006 edition.

Once again this year, Ingenio also took part in the National Animation and Design Centre's annual graduates gala by offering an award of $2,000. Moreover, the subsidiary lent its proud support to Cybercap, an organization dedicated to the social and professional integration of young dropouts through multimedia.

Finally, in 2005, Ingenio became a member/major partner of Alliance NumériQC, a network of local multimedia and interactive digital content professionals. This status serves to underline the exceptional involvement of certain members within the organization.

Priorities for 2006-2007
Ingenio's priorities for fiscal 2006-2007 revolve around three fundamental areas of focus:

- the consolidation of existing partnerships with key players within the gaming industry
- the further development of the *Jeux Éclair* family, including the support of external partners in their marketing efforts
- working in collaboration with other Loto-Québec business units in pursuit of research initiatives aimed at creating new, more dynamic games for local and export markets, particularly within the Casino sector

1 million dollars

The amount of royalty revenues received by Ingenio from lottery organizations outside Québec during 2005-2006

Review of Management Activities

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Corporate Secretariat, Legal Affairs and Internal Auditing

The Office of the Corporate Secretariat and Vice-Presidency of Legal Affairs offers a wealth of expertise within its various areas of responsibility. More specifically, the group's personnel provide services and professional counsel in support of the Corporation's objectives and so as to help maintain the balance between its business mandate and its social responsibility. In addition to general administrative and legal matters, the Office looks after internal auditing, document management, the Fondation Mise sur toi, and the General Secretariat of the World Lottery Association.

Corporate Secretariat

Over the course of the past fiscal year, in addition to coordinating Loto-Québec's Board meetings and those of its subsidiaries, internal policies, and conducting follow-ups on access to information requests, the Corporate Secretariat provided the legal framework required for the establishment of the gaming centre network, most notably through the creation of a new subsidiary – the Société des salons de jeux du Québec. In conjunction with Loto-Québec's acquisition of an interest in the French company, Moliflor, the Corporate Secretariat also provided the necessary legal services for the conclusion of the transaction and the creation of a new subsidiary known as Casino Capital 2006.

Responsible for obtaining patents and trademarks for the Corporation and its subsidiaries and the awarding of licenses, the Secretariat took a number of concrete actions during the past fiscal year to protect the organization's intellectual property and promote recognition of its patents within the gaming industry. As part of these efforts, and subsequent to launching legal proceedings against some American game suppliers suspected of infringing upon a patent held by Ingenio, a license was awarded to Gtech, which is among the largest game suppliers in the world. This license now assures the protection of Ingenio's patent while allowing the company to develop new business opportunities. Negotiations are presently continuing with another major supplier, Scientific Games (SG).

Legal Affairs

Actively involved in all of the Corporation's major projects, the Legal Affairs group offered its expertise this past year in support of various new initiatives implemented within the Video Lottery sector. For example, the group provided the legal framework required for the application of the voluntary VLT removal program, as well as for the establishment of the code of responsible marketing within the retailer network. In parallel with the execution of mandates related to Loto-Québec's day-to-day business and the management of litigation, the Legal Affairs group also played an important role during the year just ended in evaluating the impact of certain legislation on the Corporation's activity sectors, including the *Act to Amend the Tobacco Act* that came into effect May 31, 2006.

Internal Auditing

Among the primary responsibilities of Loto-Québec's Internal Auditing team is the effective control of the Corporation's activities and those of its subsidiaries in order to assure the total integrity of their operations. Working hand-in-hand with senior management, Internal Auditing spent much of the past year reviewing the organization's various business processes, focusing particular attention on the most important. As a result of this comprehensive evaluation, a triennial auditing plan was established, with the Lottery and Bingo sectors being the priority over the past reporting period. Finally, the group concentrated considerable attention as well on how future standards of Crown corporation governance may impact on the operations of Loto-Québec.

Financial Management

The Senior Vice-Presidency of Financial Management provides Loto-Québec and its subsidiaries with the following services:

- Effective maintenance of books and records
- Production of financial information
- Management of accounts and financial transactions
- Financial protection of assets
- Development and monitoring of budgetary and financial controls
- Procurement of goods and services
- Assurance of effective strategic planning processes
- Management of real estate activities
- Supervision of the new activity sectors under the responsibility of the Casino Mundial, Casino Capital 2006 and Société des salons de jeux du Québec subsidiaries

In accordance with Loto-Québec's procurement policy, the Senior Vice-Presidency is dedicated to obtaining the best quality-price ratio when making its acquisitions, while fully respecting the principles of transparency and fairness in the selection of suppliers. During the past fiscal year, the Corporation acquired goods and services worth a total of $394.6 million. These purchases were made from 1,159 suppliers, 83.8% of which are based in Québec.

In line with its commitment to maintaining the highest standards of efficiency and transparency with respect to financial governance, the Corporation conducted a thorough review of its Finance function during fiscal 2004-2005. This comprehensive appraisal showed no significant deficiencies in the existing controls and the reliability of financial information. Nevertheless, a number of recommendations were formulated aimed at revising the sharing of responsibilities within the organization and assigning greater responsibility to management personnel within the different activity sectors. These recommendations are to be fully implemented by the beginning of 2006-2007.

Analysis and Planning

Since autumn 2005, the Department of Corporate Analysis and Planning has assumed the responsibilities of the former Vice-Presidency of Strategic Planning. The mission of this recently created group is to support the Senior Vice-Presidency of Financial Management in its advisory role within the organization and its operating units, particularly with respect to strategic planning, the rendering of accounts, and the justification of real estate projects.

Launched in the fall of 2003, the triennial planning process is now solidly in place throughout the organization. During the year just ended, the new Analysis and Planning group became actively involved in updating this strategic planning process. In addition, the group devoted considerable attention to various analysis and planning initiatives focused on the projects and hypotheses related to the future of the Casino de Montréal and the gaming centres.

Casino Mundial

Casino Mundial is a wholly-owned subsidiary of Loto-Québec responsible for exporting the Corporation's expertise in the areas of casino design, implementation and management. Created in July 2002, the subsidiary continued to pursue new opportunities within the European market during 2005. As a result of these efforts, an interest was acquired in the French group, Moliflor Loisirs. In accordance with the terms of the service contract between Casino Mundial and Moliflor, the subsidiary was highly active in developing effective growth strategies for the French group, particularly in support of its efforts to win a tender for the construction and operation of a new casino in the municipality of Lille.

Real Estate Activities

Part of the Senior Vice-Presidency of Financial Management, the Corporate Vice-Presidency of Real Estate plays a dual role of management and development. On the one hand, it operates some of Loto-Québec's buildings and provides all subsidiaries with systematic support in the management of their properties. In its role as a developer, the group conducts feasibility studies and plans and executes new real estate projects.

The Corporation's real estate holdings are comprised of more than 30 assets with a combined acquisition value in the order of $746 million. Occupying a total area of more than 400,000 square metres, these holdings include commercial properties (casinos, hotels, parking facilities), administrative buildings (offices, warehouses) and land.

Major Development Projects

The Vice-Presidency had an opportunity to demonstrate its development expertise through its work on two major initiatives during the past fiscal year – the proposed relocation of the Casino de Montréal and the establishment of a network of gaming centres.

With regards to the plan to relocate the Montréal gaming house to the Peel Basin, the group conducted a number of extensive technical studies related to transportation, circulation and infrastructures, urban integration, emergency services, classification and decontamination of the grounds, as well as geotechnical assessments. Actively involved in site planning and development, the group also worked on refining a concept for an intermodal station and on a scenario for the eventual transformation of the current Casino into an office building.

With respect to the establishment of gaming centres, the Vice-Presidency's support initiatives included analysis of potential sites, the preparation of a master plan, the development of a functional program, the selection of professionals to conduct feasibility studies, the evaluation of costs, the development of architectural and engineering designs, and project coordination.

At the Casino de Montréal, major renovation and development work was carried out throughout the year aimed at solving the most pressing problems related to the establishment's outdated facilities and, thereby, preserving its value. In terms of functional development, the group also completed work to revitalize the look and allure of *Bar Le Carré*, which is now enjoying greater popularity than ever.

Space Management
One of the primary responsibilities of the Vice-Presidency is to assure the reliability of building systems, and in so doing, the well-being of their occupants and protection of the Corporation's business activities. The group is also responsible for managing the effective use of space in all buildings and is regularly called upon to execute design and layout projects on behalf of the organization's various administrative units. During the past fiscal year, the offices of Nter Technologies on McGill Street were reorganized, the cooling units at the Corporation's Information Systems Backup Centre were replaced, and the look and layout of the Espace Création gallery on the main level of the head office building were redesigned.

In conjunction with Loto-Québec's commitment to sustainable development, the Vice-Presidency now conducts its activities taking the Boma *Go Green* certification program's requirements into account for the Corporation's existing buildings, and it will respect the Canada Green Building Council's LEED certification norms for all future construction and the new gaming centres. In June 2005, Loto-Québec's head office building and regional offices in Québec City obtained *Go Green* certification. Furthermore, seven other buildings were audited, and specific measures were put into place aimed at earning Boma certification for them as well.

The Vice-Presidency assigns a high level of importance to the continuous development of its management and specialized personnel. As such, it offers a wide range of training sessions during the year on such diverse topics as real estate law, finance and the environment. These valuable sessions are organized in collaboration with the Corporate Vice-Presidency of Human Resources' Department of Organizational Development.

Lotim
A subsidiary of Loto-Québec, Lotim owns 50% of the building housing the Corporation's Montréal headquarters on Sherbrooke Street West in partnership with SITQ National, a subsidiary in turn of the Caisse de dépôt et placement du Québec. The past year saw no change in the rental status of the building, with the occupancy rate remaining close to 100%.

The net income generated by the head office property totalled $5.6 million during the year just ended, up 3.4% from the previous year. These results are attributable to the increase in rental income of close to 4%, which reduced the effects of higher operating expenses and amortization costs. Lotim's interest in the building produced total revenues of $2.8 million.

Information Technologies

The mission of the Corporate Vice-Presidency of Information Technologies is to develop (or acquire) and operate gaming and management systems designed to help achieve the business objectives of Loto-Québec and its subsidiaries. The group is also responsible for providing the organization with guidance in the selection of new information technologies. Actively involved in supporting the Corporation's efforts to attain its financial targets as well, the Vice-Presidency is committed to systematically integrating an effective balance between costs and benefits into all of its decisions.

Maintaining System Reliability
The reliability of Loto-Québec's information systems was maintained during fiscal 2005-2006, both in terms of network integrity and security, as well as availability (99.94%) and performance (maximum capacity of 14,000 transmissions per minute guaranteed on lottery systems). This high level of reliability was achieved despite the fact that some 2,000 interventions were carried out on the various networks.

Principal Accomplishments
Among the major accomplishments realized by the group's different teams over the course of the past year are the following:

- Major projects in preparation for tenders to replace game terminals and for the selection of a telecommunications firm to provide IP network service
- Initiation of a project to modernize HP Tandem computers
- Installation of 100 digital displays at lottery retailer locations
- Implementation of infrastructures and procedures required for the launch and effective operation of an Intranet site
- Continuation of work on the project to replace the notebook computers used by lottery wholesalers
- Installation of a new casino game management system
- Initiation of work to replace the current Keno game in casinos with a new system offering greater diversity
- Development of a network architecture able to meet the business needs of the new Société des salons de jeux du Québec
- Production of various deliverables for the Lottery sector, particularly related to the launch of the *Joker* and *Astro* games, the seven-digit *Extra*, the new *Ma Maison Rona* game concept with online registration, and the next Canada-wide *Vie de millionnaire* lottery
- Implementation of various databases
- Support for the re-design of casino Web sites
- Integration into the group of external resources responsible for the operation and maintenance of payroll applications that will generate recurrent annual savings of $1 million
- Continuation of the project to upgrade the payroll application

Security

The mission of the Vice-Presidency of Corporate Security is to develop, implement and manage a comprehensive set of administrative procedures and prevention, detection and corrective measures in order to protect Loto-Québec's clientele, employees, assets and image. The group also plays an active role in assuring effective risk management.

Consolidating the Security Effort
The recommendations that stemmed from the security review conducted in 2004-2005 were implemented during the year just ended, resulting in the strengthening of the already solid and harmonious relations existing between the Vice-Presidency and the units responsible for security within the Corporation's subsidiaries. This initiative was made possible through effective consultation and the Corporation's security policies were revised as a consequence.

Investigations and Operational Security
Under the theme, *Optimal Link*, the Investigations and Security Department undertook an effort to regulate a number of security-related processes, particularly with respect to Loto-Québec's legal obligation to report to the Financial Transactions and Reports Analysis Centre of Canada (FINTRAC). A process of analysis was also implemented to allow for improved tactical and strategic interpretation of activities and incidents.

On another front, efforts got underway to tighten controls on the sale of games of chance to minors.

Security of Information Technologies
The Department of Information Technology Security is responsible for assuring the security of the Lottery sector's information systems and those of the organization's corporate units. Once again this past year, the group concentrated its efforts on Loto-Québec's most strategic computer projects in order to ensure the application of the most effective protective measures.

Among the various initiatives undertaken during the past reporting period, the group proposed three management directives concerning the governance of information technology security. In addition, it developed an employee awareness program focused on computer security that is slated for implementation during the current fiscal year.

Human Resources

Fiscal 2005-2006 was a year full of accomplishment for the Corporate Vice-Presidency of Human Resources – and for the ultimate benefit of Loto-Québec's 7,100 employees.

During the past year, the group pursued the following objectives:

- Assure a qualified workforce able to meet the Corporation's needs and expectations
- Mobilize and develop an employee base with varied profiles and competencies
- Institute policies promoting the assumption of greater responsibility on the part of management personnel and salaried employees
- Maintain healthy labour relations and contribute to the organization's positive performance and development

Training and Competency Development

Over the course of the year just ended, Loto-Québec dedicated 1.1% of its total payroll to personnel training and launched an effort to set up a computerized system for the management of training activities. The human resources training and development plan was also reviewed with an eye towards targeting the most important development needs in relation to each corporate sector's operational strategy.

Moreover, significant attention was devoted to refining the training of the Société des casinos du Québec's (SCQ) and Resto-Casino's 6,000 employees. As part of this effort, the *Phil the Moment of Truth* program was employed to mobilize all resources around customer service objectives. In addition, the group pursued its commitment to continuously improving quality by organizing numerous *Kaizen* workshops. During the course of these sessions, employees were called upon to find creative solutions to a variety of operational problem scenarios.

Recruitment and Staffing

Over the past year, the corporate Web site's "Job Offers" page logged over 320,000 visits, while Loto-Québec and its subsidiaries received 66,000 applications in response to job offers posted externally. On a related front, in preparation for the pending establishment of gaming centres, a number of different activities were carried out, including the delineation of working conditions and a salary structure, the preparation of job descriptions and evaluation measures, and the recruitment of employees for the new Société des salons de jeux du Québec.

Labour Relations

From a labour relations perspective, Hilton Lac-Leamy employees affiliated with the CSN ratified an accord for the renewal of their collective agreement, which will remain in effect until January 31, 2009. Labour contract negotiations also got underway during the past fiscal year with employees who are members of the Syndicat des professionnelles et professionnels du gouvernement du Québec and the Syndicat des travailleuses et travailleurs de Loto-Québec respectively.

Estimated Workforce – 2006-2007

Loto-Québec	849
Société des casinos du Québec and Resto-Casino	101
Casino de Montréal*	3,618
Casino de Charlevoix*	397
Casino du Lac-Leamy*	1,593
Hilton Lac-Leamy Hotel	311
Société des loteries vidéo du Québec	36
Société des bingos du Québec	25
Ingenio	43
Technologies Nter	138
Total	7,111

* Including restaurant and bar personnel

Communications and Public Affairs

The mission of the Senior Corporate Vice-Presidency of Communications and Public Affairs is to develop and maintain close ties between Loto-Québec and its various publics, while helping the Corporation to achieve its business objectives. Encompassing three distinct departments – Communications, Sponsorships and Public Events, and Media Relations and Publications – the Senior Vice-Presidency is also actively involved in promoting public awareness and appreciation of the Corporation's diverse contributions to Québec society. In addition, the group is responsible for the organization's sponsorship program, La Collection Loto-Québec, and the Espace Création gallery.

Among the Senior Vice-Presidency's principal accomplishments over the course of the past year are the following:

- Development and execution of a communications program in support of the project to relocate the Casino de Montréal to the Peel Basin area
- Publication of a comprehensive Social Responsibility Review, a first within the Canadian lottery industry
- Implementation of an electronic and print awareness campaign about excessive gaming
- Updating of the Corporation's Web site and a complete redesign of the Casinos' sites; with over 850,000 visits per month to its home page and twice that amount to its Draw Results page, Loto-Québec's Web site ranks among the 10 most visited French-language sites in Canada
- Launch of an Intranet site intended for employees
- Implementation of an action plan to optimize corporate practices in the area of sustainable development and to obtain *Go Green* certification for each of Loto-Québec's buildings
- Sponsorship of over 150 events held across the province
- Production and distribution of some 740 press releases, including approximately 40 focused on the Corporation's activities and orientations, 100 about sponsored events, and close to 600 regarding prizes of $50,000 and over won throughout the province

The majority of the needs of the Corporation and its subsidiaries for written materials are met internally by a qualified team of writers, graphic artists and photographers. Working according to an organizational model typically used by communications agencies, this team serves the Corporation's various units as their customers.

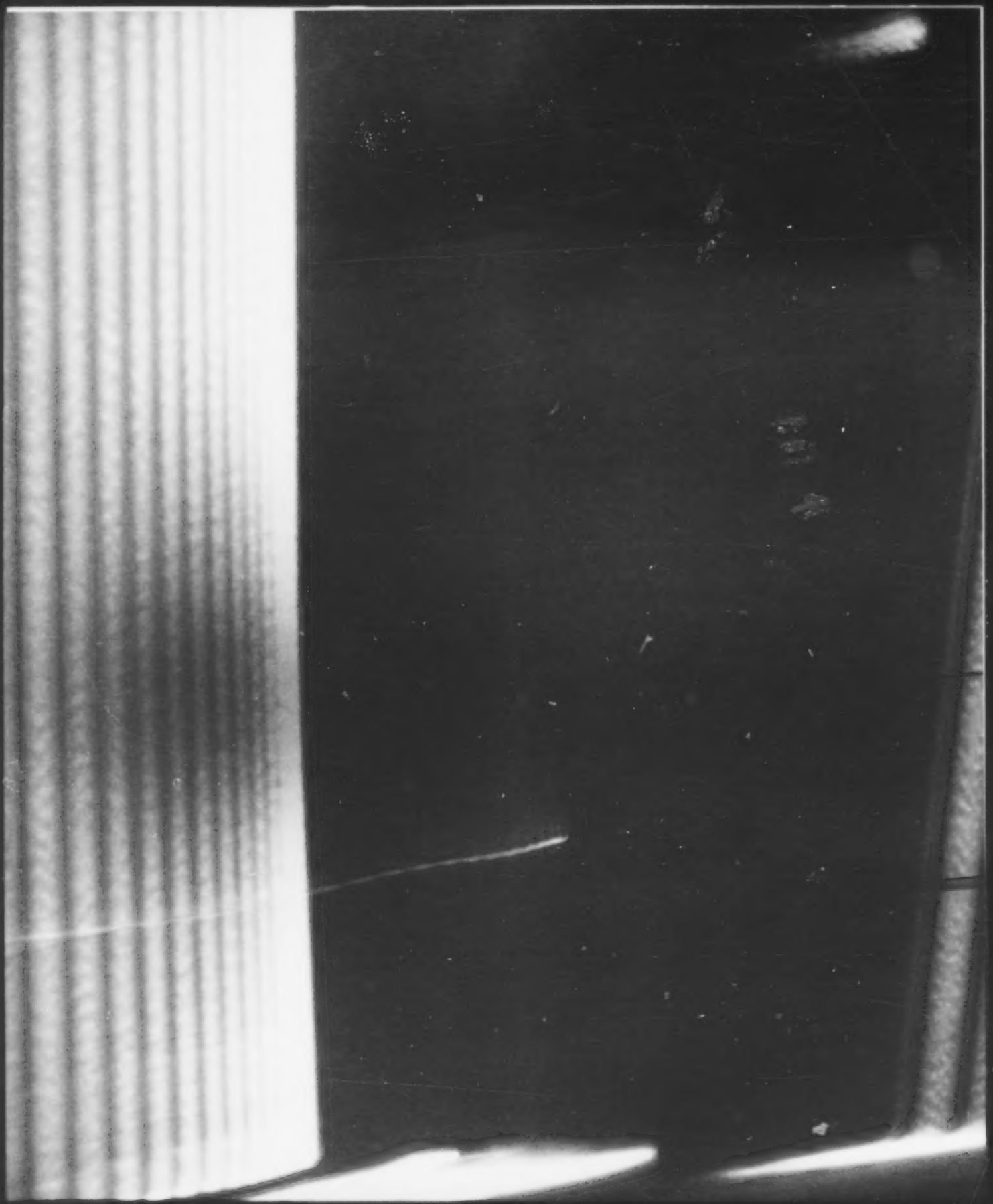
Sponsorship Program

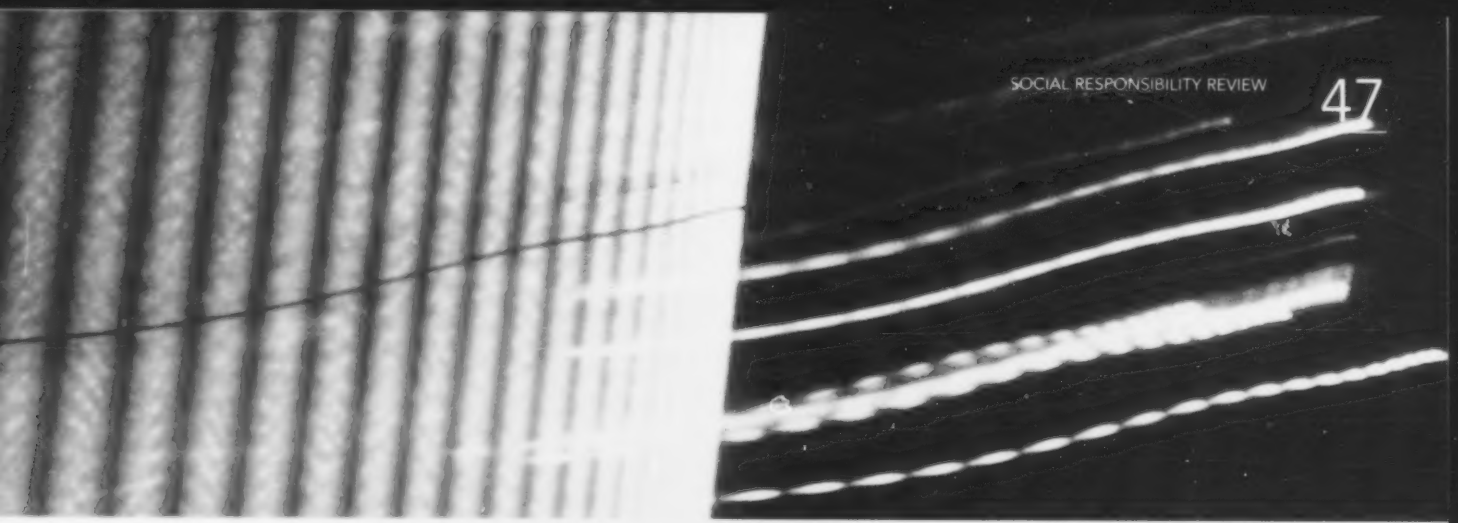
Loto-Québec devoted a total of $16.6 million to the sponsorship of events during fiscal 2005-2006, thereby reaching the objective set in 2004 to allocate 1% of its annual net income to its sponsorship program. Under the banners of *Les Rendez vous Loto-Québec* and *Sorties signées casinos*, this program selects events based on a rigorous set of criteria and on their ability to attract tourists and generate significant economic spin-offs. In addition to providing a direct financial contribution, Loto-Québec supplies valuable promotional and advertising support to help showcase the events and extend their reach.

La Collection Loto-Québec and Espace Création

With the acquisition of 200 new creations in fiscal 2005-2006, La Collection Loto-Québec has grown to encompass over 3,500 distinctive works. Some 900 of the province's finest artists are now represented by the Collection, which ranks as one of the largest and most important corporate art collections in Canada.

For its part, Loto-Québec's Espace Création gallery is yet another source of support for local artists by serving as a prime venue for exhibitions. Located on the ground level of the Corporation's head office building, the gallery stages a diverse array of innovative shows in collaboration with creators working in the visual arts, literature, music and performing arts milieus. The five exhibitions organized during the past year showcased the work of Gilles Carle, Tom Hopkins, Pierre Gauvreau, Suzanne Harel, as well as the creations of various Québec artists of Polish origin.





Fiscal 2005-2006 was a pivotal year for Loto-Québec with respect to demonstrating our commitment to social responsibility. Within the pages of its first ever Social Responsibility Review published last October, the Corporation outlined the numerous ways it works to fulfill its economic mandate, while constantly taking the social and environmental repercussions of its activities into account.

We recognize that the large majority of Québecers would like to know more about our various contributions to Québec society. We also know that the public is concerned about excessive gaming and would like to see us intensify our efforts in that regard. That is why we focused more attention than ever this past year on promoting responsible gaming throughout our different activity sectors. The next few pages of this report provide an update to our first Social Responsibility Review in summarizing our contributions to the Québec community at large during fiscal 2005-2006.

Alain Cousineau
Chairman, President and Chief Executive Officer

The Social Responsibility Review is available for consultation in its entirety on Loto-Québec's Web site at www.loto-quebec.com

Maintaining the Balance Between Economic and

Economic Contribution

Loto-Québec returns the fruits of its activities in their entirety to Québec society. As such, the Corporation's clientele, business partners and employees all benefit from its economic contribution, as do the Government and provincial taxpayers alike.

Where Loto-Québec's earnings went in 2005-2006

Total consolidated revenues	$4.016 billion
Net income	$1.614 billion
Dividends to the Québec Government*	$1.537 billion
Prizes to lottery and bingo winners	$984.6 million
Commissions and other compensations to lottery, video lottery and bingo network partners	$427.3 million
Purchase of goods and services from 1,159 suppliers	$394.6 million
Salaries and benefits to employees	$359.6 million
Taxes and special contributions to governments	$254.7 million

* During fiscal 2005-2006, Loto-Québec contributed more than $1.5 billion in dividends to the Québec Government's Consolidated Revenue Fund in order to finance public programs and services. The graphic below illustrates the breakdown of projected Consolidated Fund expenditures during 2006-2007.

Government of Québec – 2006-2007 Projected Expenditures

Source: 2006-2007 Expenditure Budget, Volume II

Gaming: A State-Controlled Activity

In the majority of countries around the world, games of chance must be controlled and managed by State authorities in order to be legal. In Canada, the Criminal Code stipulates (with a few exceptions) that only the provinces may operate games of chance in accordance with their respective legislation. In effect, the State monopoly on the operation of games of chance not only ensures that all profits generated by gaming go into State coffers and are used for public good, but it also prevents the forces of competition from determining how the industry will evolve. Moreover, the State presence provides greater assurance of the integrity of gaming, the protection of consumers, and the prevention of illegal gambling. Québec legislation entrusts Loto-Québec with the mandate to operate games of chance and stipulates that the norms and conditions for each category of game it offers be regulated. These regulations must be approved by the Government and are published in the *Gazette officielle du Québec*. Furthermore, the regulations governing casinos and video lotteries must be subject to the scrutiny of the Régie des alcools, des courses et des jeux before their approval by the Government.

Pursuing Our Commitment to Contributing Responsibly

Social Responsibility Review

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Social Responsibility

The Casinos: Veritable Engines Driving the Tourism Industry

The most popular attractions in their respective regions, Loto-Québec's three casinos logged over 10.6 million visits during the past fiscal year, including 2.5 million from tourists. In addition to supporting several thousand direct and indirect jobs, these gaming houses generate major economic benefits within their operating zones.

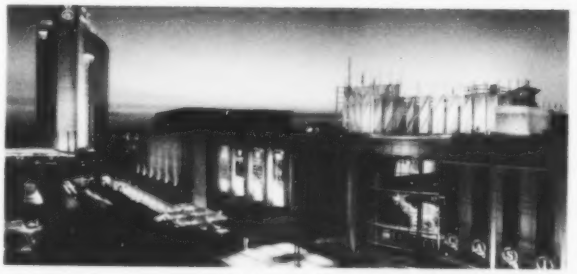
However, in order to be able to continue to contribute to the development of tourism in Québec, the Casino de Montréal is facing a formidable challenge - that of remaining competitive with the other gaming houses located in the northeastern U.S. As such, the Casino will be exploring a variety of potential solutions over the coming months in order to effectively pursue its tourism mission.

Broadening Horizons Through Innovation

Since its creation 36 years ago, Loto-Québec has earned an enviable position as an international reference on many fronts, including being the first lottery corporation in the world to operate an online sales network, to launch a CD-ROM-based lottery, to introduce an interactive terminal in its casinos for the prevention of excessive gaming, and to market a televised lottery.

Casino de Montréal

Casino de Charlevoix and Fairmont Le Manoir Richelieu Hotel



Lac-Leamy Complex: Casino and Hilton Hotel

It doesn't change you, except...

One of Loto-Québec's principal contributions is in the form of the prizes it awards to thousands of lottery and bingo winners each year. During fiscal 2005-2006, a total of 1,274 lucky winners received 593 prizes of $50,000 or over, including 44 prizes in excess of $1 million.

Contributing responsibly means fulfilling our mission with respect for our values and for the benefit of all with whom we interact.

Social Contribution

2005-2006 Contributions

Contributions to the fight against excessive gaming	**$35 million**
• Ministère de la Santé et des Services sociaux	$22 million
• Ministère de la Sécurité publique	$3 million
• Fondation Mise sur toi	$10 million
Contributions to non-profit organizations	**$21.5 million**
• Société des bingos du Québec	$11.4 million
• *Lotomatique* and kiosk sales	$10.1 million
Services for the elderly who have lost their autonomy	**$30 million**
• Ministère de la Santé et des Services sociaux	
Agricultural fairs	**$5.5 million**
• Ministère de l'Agriculture, des Pêcheries et de l'Alimentation	
Fonds d'aide à l'action communautaire autonome (5% of the net income generated by the Société des casinos du Québec and Resto-Casino)	**$13.3 million**
Fonds d'aide à l'action humanitaire internationale (1% of the net income generated by the Société des casinos du Québec and Resto-Casino)	**$2.7 million**
Sponsorships	**$16.6 million**
La Collection Loto-Québec	**$0.4 million**
Employee programs	**$2.6 million**

Our Employees: Our Strength and Key to Superior Customer Service

As its greatest asset, Loto-Québec is committed to keeping its workforce of 7,100 qualified individuals occupying 250 different job categories well informed. In line with this commitment, the Corporation ensures that its employees are familiar with and share its values and preoccupations with respect to its various contributions, sensitizes them to responsible gaming, and provides them with the information they need to assure adequate customer response. Moreover, Loto-Québec is committed to providing a healthy and stimulating environment that enables employees to develop and achieve their maximum potential.

Loto-Québec's social contributions include financial support to more than 1,000 non-profit organizations (NPOs) and other groups in the form of:

- agreements and programs enabling NPOs to sell lottery products via *Lotomatique* or at kiosks located in shopping malls (more than 1,443 NPOs are supported in this way)
- donations of all profits generated by network bingo sales at participating halls (some 1,010 NPOs are supported in this way)
- contributions of 5% and 1% of net earnings generated through the operation of casinos and their affiliated businesses (bars, restaurants, hotels, etc.) respectively to the Fonds d'aide à l'action communautaire autonome and to the Fonds d'aide à l'action humanitaire internationale

Festival international des rythmes du monde de Saguenay

- sponsorships of more than 100 public events across the province under the banner of *Les Rendez-vous Loto-Québec* and the *Sorties signées Casino* program, selected on the basis of their ability to generate economic spin-offs for the community and to attract tourists
- La Collection Loto-Québec's program for the acquisition of contemporary works of art in support of the province's visual arts milieu, as well as through its regional activities and the exclusive exhibitions presented at Espace Création
- contributions of more than $60.5 million into designated funds:
  - $52 million to the Ministère de la Santé et des Services sociaux, including $22 million to help compulsive gamblers and $30 million for services for the elderly who have lost their autonomy
  - $3 million to the Régie des alcools, des courses et des jeux for the control of access to video lottery terminals
  - $5.5 million to the Ministère de l'Agriculture, des Pêcheries et de l'Alimentation for certain agricultural projects

LES RENDEZ-VOUS LOTO-QUÉBEC
LE PLAISIR D'ÊTRE ENSEMBLE

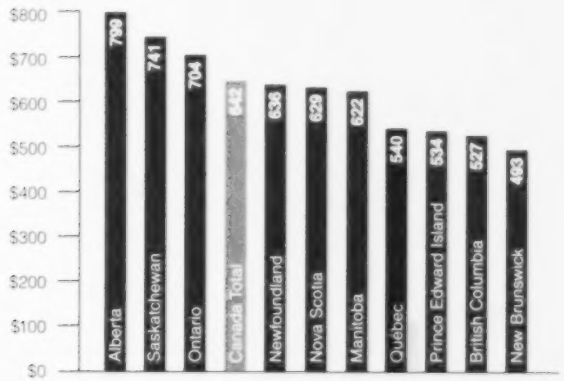
ESPACE CRÉATION
LOTO-QUÉBEC

The Numbers Speak for Themselves

Excessive Gaming

Just as they wish to know where the Corporation's revenues go, Québecers are concerned about overall spending on gaming and about the whole question of compulsive gambling. Contrary to some perceptions commonly held about gaming in Québec, the actual numbers tell a different story. In fact, Québecers are among the Canadian consumers who spend the least on games of chance – approximately $100 less than the national average. Compared to the residents of other provinces, Québecers rank seventh in terms of per capita spending on legalized gambling.

Spending on Legalized Gambling



Source: Gross Per Capita Spending on Legalized Gambling in Canada and the Provinces in 2003-2004. Data gathered from the audited Annual Reports of Canadian lottery corporations for the most recent period for which complete information is available.

With Respect to Compulsive Gambling

Also contrary to an often-held perception, the prevalence of compulsive gambling is not on the rise in Québec. According to the results of the most recent study*, the actual number of compulsive gamblers within the province's adult population (1% in 1996 and 0.8% in 2002) and of players at risk (1.4% in 1996 and 0.9% in 2002) remained stable between 1996 and 2002, while Loto-Québec's revenues increased by 40% during the same period.

**Source: Ladouceur, R., Jacques, C., Chevalier, S., Sevigny, S., Hamel, D. & Allard, D. (2004). Prevalence of Gaming and Compulsive Gaming Habits in Québec in 2002. Université Laval and Institut national de santé publique du Québec.*

Loto-Québec's social contributions take a multitude of forms. The Corporation's top priority, however, is the promotion of healthy gaming behaviour.

- Reduction of the number of video lottery sites

Accessibility to video lottery terminals (VLTs) will be diminished through the reduction of the number of sites in operation by at least 31% before the end of 2007, and by concentrating the majority of units withdrawn from bars and brasseries in provincially controlled gaming centres. As of March 31, 2006, close to 43% of the objective had been reached.

The obligatory reorganization of the VLT network translates into the withdrawal of 2,500 units from the bar network and the cutting of 1,142 sites holding VLT operating permits. Of the 2,500 VLTs withdrawn, 1,770 are to be relocated to the gaming centres, along with the 430 units currently in place at racetracks. In all, the reorganization represents the withdrawal of a total of 730 machines.

In addition to the obligatory reconfiguration, a voluntary VLT withdrawal program offering compensation equivalent to one year's commission was implemented during the year aimed at:

- retailers equipped with five VLTs within 271 targeted zones
- proprietors of multiple sites (10 VLTs or more) throughout the province

- Establishment of controlled sites

Four new gaming centres are to be established in Québec, including two at existing racetracks in Québec City and Trois-Rivières respectively, another at a racetrack to be opened on the northern tip of Montréal, and a fourth at the highly popular tourist destination of Mont Tremblant.

By concentrating VLTs in this way, not only is Loto-Québec reducing accessibility, but it is also assuring rigorous control and the continuous surveillance of clientele, thus promoting responsible gaming practices. Moreover, the Corporation will be offering a self-exclusion program such as the one in place at the province's casinos since 1993.

Fondation Mise sur toi

Since 2002, the Fondation Mise sur toi has pursued its efforts aimed at the prevention of excessive gambling, the promotion of healthy gaming behaviour, and the protection of individuals at risk. The Fondation is actively involved in the implementation and continuous improvement of prevention tools within Loto-Québec's activity sectors, as well as in the promotion of the 1 866 SOS-JEUX hotline created to provide assistance to people experiencing excessive gambling problems and to their loved ones.

FONDATION MISE SUR TOI
une initiative de Loto-Québec

During the past fiscal year, the Fondation Mise sur toi played an integral role in the organization of an extensive awareness campaign targeting both Loto-Québec employees and clientele.

- Internally, a specially adapted awareness week helped familiarize the Corporation's 7,100 employees with the variety of preventive measures in place throughout the organization and its subsidiaries.

- Among the general population, a comprehensive advertising campaign entitled *It's only a game/It's nothing more than chance* ran for 13 weeks on the province's major television networks and in all Québec dailies. As a complement to this initiative, a major information campaign was also launched which saw close to 1.2 million pamphlets entitled *Your Player Profile in 8 Questions* put into circulation as inserts in the province's dailies and certain weeklies and community papers.

- The *Your Player Profile in 8 Questions* pamphlet was also widely distributed to the Corporation's partners, particularly to lottery retailers, participating bingo halls and casinos.

Loto-Québec has also redesigned the section of its Web site related to responsible gaming, adding considerable information and a list of free resources available throughout the province. More than 86,800 visits to this section of the site alone were logged between April 1, 2005 and March 31, 2006.

Finally, the Fondation received a mandate in 2005 to work with the appropriate parties to develop additional prevention programs and measures in support of individuals grappling with gambling problems in seven specific sectors or regions of the province.

Preventive Measures

Au Centre du Hasard

At lottery product retailers

- The *Ici on carte!* awareness campaign
- Indication of the odds of winning on the back of tickets, selection slips and the paper rolls used in game terminals
- Specific measures among wholesalers, retailers and consumers to assure compliance with the legislation prohibiting the sale of lottery products to minors, which, upon the recommendation of Loto-Québec, came into effect in February 2000
- An advertising code of ethics that prohibits any form of product promotion targeted at youth or specific ethnic communities

Prevent the sale of lotteries to minors
I.D. required here!
It's serious!
Loto-Québec is reaffirming its support of the laws prohibiting the sale of lottery products to minors.
ICI ON CARTE!

At the casinos

- The self-exclusion program, which approximately 1,500 players take advantage of each year and which, in autumn 2005, was enhanced via a pilot project at the Casino de Montréal offering players the services of a counsellor throughout the self-exclusion period
- A new generation of self-evaluation console known as *8/8 The Winning Combination*, accompanied by a prevention pamphlet that allows players to determine their gaming profile by answering 8 simple questions
- The new *Au Centre du Hasard* pilot project at the Casino de Montréal, dedicated to the prevention of excessive gaming by providing pertinent information and offering the services of professionals to demystify and clarify the notions of luck and chance
- An awareness program designed to enable employees to detect patrons in distress; more than 4,420 employees have undergone this training to date
- Prominent display of moderation messages and the 1 866 SOS-JEUX help hotline number
- An intervention service at all three gaming houses for patrons in need of timely help
- Curtailment of access to minors under the age of 18
- Prohibition of alcohol consumption in gaming areas
- No credit to patrons (contrary to other North American gaming houses)

At establishments operating video lottery terminals

- Implementation of a responsible marketing code requiring VLT operators to respect 20 obligations, along with new signage reducing visibility and the incitement to play; as of March 31, 2006, some 3,050 out of a possible 3,109 sites had been met with and had adhered to the code
- Launch of the second edition of the *Taking risks is no game* program developed in collaboration with the Fondation Mise sur toi and currently being run for employees of bars, brasseries and taverns operating VLTs to provide them with a better understanding of the assistance available to players in trouble; with the target being to train 10,000 employees by the end of 2006-2007, the responsible marketing code stipulates that VLT site operators should have at least one employee on hand at all times who has undergone this training
- Integration of displays and mechanisms on VLTs, including moderation messages, the player's wager in dollars, the time, and a module to determine the duration of play
- Limit of five games per VLT
- Maximum wager set at $2.50, making for a maximum expenditure of $60 per session (as opposed to $100 before)
- A reimbursement coupon issued once winnings reach $500, thus obliging players to take a break from the game
- Automatic deactivation of machines outside of the operating hours authorized by the site's alcohol permit

In addition, among other things, Régie des alcools, des courses et des jeux regulations prohibit the offering of gratuities to VLT users (meals or discounts on food and beverages, including alcohol) as an incentive to play.

At network bingo halls

- Prominent display of the 1 866 SOS JEUX help hotline number and 18+ visual
- Ready availability of the *8/8 The Winning Combination* pamphlet

At future gaming centres

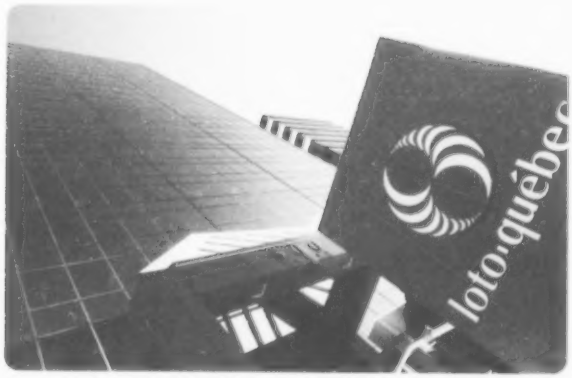
The future gaming centres will also employ specific control measures.

- Prohibition of alcohol consumption in gaming areas
- Availability of a self-exclusion program
- Obligatory dress code
- Shorter operating hours than bars
- Slower VLT playing speed
- Integration of moderation messages into the machines
- Self-evaluation consoles along with the *8/8 The Winning Combination* pamphlet
- No credit or personal cheques accepted

Environmental Contribution

Loto-Québec's commitment to social responsibility includes the adoption of numerous environmental initiatives over the years.

- Maximum use of paper containing recycled fibres for the printing of tickets and publications
- Utilization of ecological solutions when refurbishing casino sites and developing green spaces
- BOMA *Go Green* certification for the Montréal head office and Québec City regional office obtained in June 2005, with similar certification for all other establishments targeted within the next three years
- Establishment of new norms for the recovery of recyclable materials and disposal of construction waste
- Construction and development of all new buildings in accordance with the Leadership in Energy and Environmental Design (LEED) American green building standard



Loto-Québec's Montréal head office and Québec City regional office were among the first buildings in the province to be certified by the *Go Green* program.

Finally, Loto-Québec's sustainable development initiative calls upon the contribution of the majority of the Corporation's subsidiaries and operating units. Under the authority of the Senior Vice-Presidency of Communications and Public Affairs and integrated into the organization's strategic planning, this initiative took a significant step forward in 2005, marking the first phase of its implementation with the launch of a pilot project. The project will be carried out in seven phases.

1. Creation of a Social Responsibility Committee
2. Identification and evaluation of current practices related to sustainable development
3. Definition of a sustainable development policy (including objectives and performance indicators)
4. Preparation of an action plan (including objectives and performance indicators) covering a period of three to five years and proposing a series of new practices
5. Approval by the appropriate decision making authorities and distribution of the plan
6. Implementation of the action plan and follow-up
7. Regular progress reporting to the Board of Directors

Action durable *Geste responsable*

The 2005 edition of the Social Responsibility Review and the present update are available for consultation on Loto-Québec's Web site at **www.loto-quebec.com**.

Review of Financial Results

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Financial Overview

For the fiscal year ended March 31, 2006, Loto-Québec's consolidated revenues exceeded the $4 billion mark for the first time, representing an increase of $78.6 million, or 2%, over the previous year. The Corporation's consolidated gross earnings reached $2.533 billion, up $56.6 million, or 2.3%, from the previous reporting period, while operating expenses equalled $774.6 million, growing by $18.7 million, or 2.5%, vis-à-vis fiscal 2004-2005. In addition, the organization posted consolidated net income of $1.614 billion, representing an increase of 1.9% over the previous year.

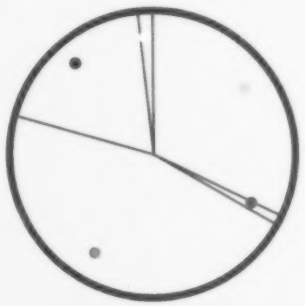
Revenues and Gross Profit by Sector

The Lottery sector recorded sales of more than $1.860 billion this past fiscal year, setting a new record that is particularly noteworthy in light of the fact that the entire North American market has reached a state of maturity. The sector's results represent an increase of $3.4 million, or 0.2%, over fiscal 2004-2005. Sports betting revenues grew by 63.1% ($18.4 million) due to the settlement of the strike that paralyzed the National Hockey League during the 2004-2005 season. These additional earnings served to compensate for the decline in sales posted by online games such as *Lotto 6/49* and *Super 7*. For its part, the sector's gross profit during the past fiscal year totalled $735.6 million, up $2.1 million, or 0.3%, over the previous year. Finally, the sector paid out $966.4 million in prizes to winners and $126.9 million in commissions to retailers.

With revenues of $758.5 million during fiscal 2005-2006, the Casino sector posted an increase of $6.6 million, or 0.9%, as compared to the previous year. These results were achieved without any increase in game offerings and as a result of pursuing international gaming markets. Despite a decline in visitor traffic, the Casino de Montréal recorded a $6.5 million, or 1.3%, increase in its revenues. At the Casino du Lac-Leamy, revenues grew by $1.7 million, or 0.8%, while at the Casino de Charlevoix, they were down by $1.6 million, or 3.3%. This decrease can be attributed to the labour conflict at the Fairmont Le Manoir Richelieu, which dragged on from mid-August to mid-March. Moreover, the Charlevoix gaming house played host to 197,000, or 16%, fewer visitors than in fiscal 2004-2005. Combined promotional allowances remitted by the three casinos this past year totalled $23.2 million.

Consolidated Revenues

Restaurants and Lodging	1.4%
• Video Lotteries	32.4%
• Bingo	1.0%
• Lotteries	46.3%
• Casinos	18.9%



Consolidated Net Income

Multimedia	-0.3%
• Lotteries	31.4%
• Casinos, Restaurants and Lodging	15.4%
• Bingo	0.2%
• Video Lotteries	53.3%

The Restaurant and Lodging sector recorded earnings of $100.9 million during the year just ended, up by $4.7 million, or 4.9%, over the previous fiscal period. Restaurant activities accounted for an increase of $3.4 million, including $1.5 million derived from transactions with the Casino sector. For its part, the Hilton Lac-Leamy saw its occupancy rate grow from 62.2% in fiscal 2004-2005 to 72.7% during the year just ended, thus generating additional revenues of $1.3 million.

Totalling $1.299 billion in fiscal 2005-2006, the Video Lottery sector's earnings rose by $61.9 million, or 5%, as compared to the previous year. However, this is a far less marked increase than the 9.6% posted in fiscal 2004-2005. As of March 31, 2006, there were 13,516 video lottery terminals in service at 3,122 sites. Video lottery operators received $285.7 million in commissions, as compared to $272.1 million in fiscal 2004-2005.

Despite a declining market throughout Canada, the Bingo sector posted revenues of $39.9 million during the past fiscal year, representing a notable increase of $3.3 million, or 8.9%, over fiscal 2004-2005. As such, the Société des bingos du Québec was able to award $18.3 million in prizes to players and $2.3 million in commissions to hall operators.

Finally, the Multimedia sector recorded earnings of $1.4 million during the year just ended, up by $284,000 over the previous reporting period. Revenues derived from export markets totalled $1 million, of which $402,000 originated from other Canadian provinces. The balance of sales was generated by products marketed by Loto-Québec (*Casteldor 2* and *Cyberslingo*).

Operating Expenses

At $774.6 million, Loto-Québec's operating expenses were up by $18.7 million, or 2.5%, compared to the previous year. This represents a ratio of 19.3% of the Corporation's total earnings, as opposed to 19.2% during 2004-2005. The increase can be attributed primarily to the higher salaries paid to employees and management personnel.

Other Items

Other items totalled $143.9 million, up $7.1 million, or 5%, from the previous reporting period. A number of factors account for this variation, including a $3.7 million increase in consumption taxes (GST and QST) and a $2.5 million reduction in the contribution of the Manoir Richelieu LP due to the seven-month labour conflict at the Fairmont Le Manoir Richelieu.

Contributions to Governments

Loto-Québec's contributions in the form of dividends to the Ministre des Finances amounted to $1.537 billion during fiscal 2005-2006, or $26 million more than during the previous reporting period. An additional $77 million was paid into the Québec Government's various designated funds, along with another $89.1 million to the Ministre du Revenu in tax on capital and Québec Sales Tax. As such, total contributions to the Québec Government equalled more than $1.7 billion. Furthermore, the Corporation contributed $14.8 million to the Government of Canada as compensation for its withdrawal from the lottery sector, as well as $73.8 million in the form of Goods and Services Tax.

Management Report

Loto-Québec's consolidated financial statements have been reviewed by management personnel, who are responsible for their preparation and presentation, including estimates and important judgements. This responsibility also entails the choice of appropriate accounting policies in accordance with Canadian generally accepted accounting principles. The financial information contained within the rest of the Annual Report corresponds to the information provided in the financial statements.

In order to fulfill its responsibilities, management maintains a system of internal accounting controls designed to provide reasonable assurance that corporate assets are protected and that operations are correctly entered in a timely manner, that they are duly approved, and that they allow for the preparation of reliable consolidated financial statements. For its part, the Corporation's Internal Audit group conducts periodic audits in order to assure that adequate and sustained internal controls are uniformly applied.

Loto-Québec recognizes that it is responsible for managing its affairs in conformance with the laws and regulations that govern the organization.

The Board of Directors monitors the way in which management carries out its responsibilities with respect to the preparation and presentation of financial information. The Board is also responsible for approving the consolidated financial statements. It relies upon the assistance of the Audit Committee, whose members are not part of the management team. This Committee meets with management and the Auditor General of Québec, examines the consolidated financial statements and recommends their approval by the Board of Directors.

The Auditor General of Québec has audited the Corporation's consolidated financial statements, in accordance with Canadian generally accepted auditing standards, and his report outlines the nature and scope of this audit along with his opinion. The Auditor General may, without restriction, meet with the Audit Committee to discuss any element that concerns his audit.

Alain Cousineau
Chairman, President
and Chief Executive Officer

Gille Dufour
Senior Vice-President
Financial Management

Montréal, May 25, 2006

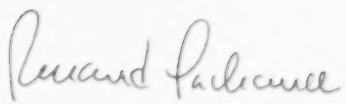
Auditor's Report

To the Minister of Finance

I have audited the consolidated balance sheet of Loto-Québec as at March 31, 2006 and the consolidated statements of income, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of Loto-Québec's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Loto-Québec as at March 31, 2006, and the results of its operations and cash flows for the year ended in accordance with Canadian generally accepted accounting principles. As required by the *Auditor General Act* (R.S.Q., Chapter V-5.01), I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.



Renaud Lachance, CA
Auditor General of Québec

Québec City, May 25, 2006

Consolidated Statement of Income

For the year ended March 31, 2006 *(in thousands of dollars)*	2006	2005
Revenue	4,016,030	3,937,464
Cost of sales (note 3)	1,483,521	1,461,589
Gross profit	2,532,509	2,475,875
Operating expenses		
Operating expenditures	668,484	659,044
Depreciation of tangible assets	84,754	80,556
Depreciation of intangible assets	9,920	5,521
Amortization of deferred charges	–	1,028
Interest – Net (note 4)	11,473	9,733
	774,631	755,882
Income before the following items	1,757,878	1,719,993
Special payments (note 5)	32,459	29,079
Goods and Services Tax	51,964	50,234
Québec Sales Tax	59,512	57,547
	143,935	136,860
Net income	1,613,943	1,583,133

Segmented information (note 22)

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statement of Retained Earnings

For the year ended March 31, 2006 *(in thousands of dollars)*	2006	2005
Balance at beginning of year	134,852	134,547
Net income	1,613,943	1,583,133
	1,748,795	1,717,680
Dividends	(1,537,000)	(1,511,000)
Fonds d'aide à l'action communautaire autonome (note 6)	(13,324)	(13,185)
Fonds d'aide à l'action humanitaire internationale (note 6)	(2,665)	(2,637)
Contributions to the Québec Government (note 7)	(61,030)	(56,006)
	(1,614,019)	(1,582,828)
Balance at end of year	134,776	134,852

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Balance Sheet

As at March 31, 2006 *(in thousands of dollars)*	2006	2005
ASSETS		
Current		
Cash on hand – Casinos	48,764	47,139
Cash on hand	–	26,671
Accounts receivable (note 8)	72,470	44,603
Inventory (note 9)	15,952	16,800
Prepaid expenses	26,320	19,012
Land destined for sale	2,077	2,077
	165,583	156,302
Investments (note 10)	128,868	39,761
Tangible assets (note 11)	640,811	679,526
Intangible assets (note 12)	69,858	66,720
	1,005,120	942,309
LIABILITIES		
Current		
Bank overdraft	15,563	–
Bank loans (note 13)	586,578	499,365
Prizes payable	70,294	53,360
Accounts payable and accrued liabilities (note 14)	166,846	224,693
Provisions related to prizes (note 15)	11,759	10,843
Deferred income	19,134	19,026
	870,174	807,287
SHAREHOLDER'S EQUITY		
Capital-stock authorized, issued and fully paid:		
1,700 with a par value of $100 each	170	170
Retained earnings	134,776	134,852
	134,946	135,022
	1,005,120	942,309

Commitments (note 16)

The accompanying notes are an integral part of the consolidated financial statements.

On behalf of the Board of Directors

Alain Cousineau
Chairman of the Board

Robert Crevier
Member of the Board

Consolidated Statement of Cash Flows

For the year ended March 31, 2006 *(in thousands of dollars)*	2006	2005
Operating activities		
Net income	1,613,943	1,583,133
Items not affecting cash flows:		
Depreciation of tangible assets	84,754	80,556
Depreciation of intangible assets	9,920	5,521
Amortization of deferred charges	–	1,028
Net contribution to the Manoir Richelieu LP	7,951	5,416
Changes in non-cash operating items (note 18)	(11,026)	21,613
Operating activity cash flows	1,705,542	1,697,267
Financing activities		
Dividends paid	(1,613,000)	(1,465,000)
Bank loans	87,213	(103,422)
Contributions to the Québec Government	(61,030)	(56,006)
Fonds d'aide à l'action communautaire autonome	(13,324)	(13,185)
Fonds d'aide à l'action humanitaire internationale	(2,665)	(2,637)
Financing activity cash flows	(1,602,806)	(1,640,250)
Investment activities		
Acquisition of tangible assets (note 18)	(42,855)	(27,231)
Acquisition of intangible assets (note 18)	(9,999)	(15,473)
Acquisition of investments	(90,491)	(3,005)
Distribution to the Manoir Richelieu LP	–	(4,803)
Distribution of the Manoir Richelieu LP	–	718
Investment activity cash flows	(143,345)	(49,794)
Net increase in cash and cash equivalents	(40,609)	7,223
Cash and cash equivalents at beginning of year	73,810	66,587
Cash and cash equivalents at end of year (note 18)	33,201	73,810

The accompanying notes are an integral part of the consolidated financial statements.

Notes to Financial Statements

March 31, 2006

1 Authority and Objectives

The Société des loteries du Québec (the Corporation), also designated as Loto-Québec, is a joint-stock corporation whose shares form part of the public domain and are allotted to the Minister of Finance. Under its act of incorporation (R.S.Q., Chapter S-13.1), its functions are to conduct and administer lottery schemes and to operate businesses which are incidental to the operation of a State casino. It may also offer, for consideration, consulting and implementation services in matters within its competence. By virtue of the *Income Tax Act* (R.S.C. (1985), Ch. 1 (5th supplement)) and the *Taxation Act* (R.S.Q., Ch. I-3), the Corporation is exempt from paying income tax.

2 Accounting Policies

Management prepares the Corporation's consolidated financial statements in accordance with Canadian generally accepted accounting principles, which requires the use of certain estimates and hypotheses. These have an effect with respect to the entry of assets and liabilities, on the presentation of contingent assets and liabilities on the date of the consolidated financial statements, as well as regarding the entry of revenues and expenditures during the period covered by the financial statements. Actual results may differ from management's best projections.

Consolidation

The consolidated financial statements include the accounts of Loto-Québec and its wholly owned subsidiaries:

- Lotim Inc.*
- La Société des casinos du Québec Inc.
- Casiloc Inc.
- La Société des loteries vidéo du Québec Inc.
- Resto-Casino Inc.
- Ingenio, filiale de Loto-Québec Inc.
- La Société des bingos du Québec Inc.
- World Gaming Consultants Inc.
- 9059-3849 Québec Inc.
- Casino Mundial Inc.
- Casino Capital 2006 Inc.
- Nter Technologies LP
- Nter Technologies Inc.

The investments in the Manoir Richelieu Limited Partnership, the 9064-1812 Québec Inc. General Partnership and Moliflor Loisirs Développement are entered at their consolidated value.

** Based on the audited financial statements as at December 31, 2005, and adjusted based on the unaudited interim results as at March 31, 2006.*

Notes to Financial Statements

Accounting Policies (continued)

Revenues

Lotteries

Revenues generated from the sale of lottery tickets and bingo cards are recorded on the date of the draw, with the exception of earnings from instant lottery ticket sales, which are entered at the time of sale.

With the exception of instant lotteries, lottery tickets sold as at March 31 for draws subsequent to that date are treated as deferred income. Discounts to retailers on these sales are carried as prepaid expenses.

Casinos and Video Lotteries

Revenue from the operation of these activity sectors corresponds to the difference between wagers and prizes awarded.

Multimedia

Revenues primarily represent royalties based on a lump sum or a certain percentage of the total of the multimedia lottery retail price. These royalties are recorded when the tickets or master CD-ROMs are delivered to the lottery corporations.

Other revenues are recorded when all major ownership-related risks and benefits have been transferred to the buyer, or when the services in question have been rendered to the customer. The retail price must be determined or determinable and receipt of payment reasonably assured.

Restaurants and Lodging

Revenues are recorded once services have been rendered, when the retail price is determined or determinable, and when receipt of payment is reasonably assured.

Cost of Sales

Lotteries and Bingo

Prizes awarded from ticket sales for bingo are based on a theoretical sales rate.

In addition to lottery prizes in cash or merchandise, Loto-Québec also awards free tickets. The value ascribed to these prizes is equal to the selling price and is included with sales as revenue and with prizes as expenditure.

Casinos

These amounts represent the promotional cash rebates issued to casino patrons.

Consumption Taxes

The taxes paid on products and services acquired and attributable to activities related to gaming cannot be recovered by the Corporation. These are entered as an element of the cost to which they relate.

Notes to Financial Statements

Accounting Policies (continued)

Moreover, rather than collecting the Québec Sales Tax and Goods and Services Tax on earnings generated by gaming related activities, the Corporation pays the taxes normally payable by the consumer and absorbs the costs. These are distinctly presented in the consolidated statement of income.

The net taxes attributable to gaming related activities represent approximately 30% of the bulk of taxable gaming related expenditures, while those attributable to activities not related to gaming are calculated in the same way as for other entities subject to consumption taxes.

Pension Plans
Defined contribution plan accounting is applied to inter-company governmental defined benefit plans, given that Loto-Québec does not have adequate information to apply defined benefit plan accounting practices.

Inventory
Lotteries and Video Lotteries
Inventories made up of modules for game terminals and video lottery terminals are valued at the lower of average cost and replacement value. The cost is determined using the average cost method.

Restaurants
Inventories are valued at the lower of cost and net realizable value or replacement value. Cost is estimated as follows:

Food and beverages: average cost
Hotel and kitchen equipment: base stock

Tangible Assets
Tangible assets are presented at acquisition cost and, with the exception of works of art, are depreciated according to their estimated useful life based on the straight-line method and following rates:

Buildings	2% to 14.29%
Parking lot landscaping	2.5% to 14.29%
Rented parking lot landscaping	2.86% and 6 2/3%
Interior design	2.5% to 14.29%
Exterior landscaping	2.5% to 14.29%
Leasehold improvements	9.68% to 20%
Office furniture	10% and 20%
Automotive equipment	30%
Equipment	10% to 50%

Unused equipment is not amortized.

The Corporation continuously evaluates the book value of its tangible assets. In order to determine if the value has decreased, management evaluates the estimated undiscounted cash flows which will be generated by these tangible assets. Any permanent drop in the book values of tangible assets is charged to the results for the period during which the drop in value occurred.

Notes to Financial Statements

Accounting Policies (continued)

Intangible Assets
Intangible assets consist of software and computer development. They are presented at their cost and amortized based on their probable useful life using the straight-line method at the rate of 10% to 33.3%. They are subject to a depreciation test when changes in the situation indicate that their book value would not be recoverable. Any excess of the book value over the real value is charged to the results of the period during which the depreciation was determined.

Computer projects in development will be amortized upon completion of the development phase and once the projects are implemented.

Currency Conversion
Monetary asset and liability elements denominated in currencies are converted at the exchange rate in effect on the date of the review. All other asset and liability elements are converted based on past history. For their part, revenues and expenditures are converted at the exchange rate in effect on the date of the operation. Exchange gains or losses are included in the results of the fiscal year.

Cash and Cash Equivalents
The policy of the Corporation is to present, as cash and cash equivalents, the Casinos' cash in hand, bank balances and temporary investments readily convertible into a known cash amount whose value is not likely to change significantly.

3 Cost of Sales

(in thousands of dollars)	2006	2005
Lotteries		
Prizes awarded	966,350	964,397
Commissions to retailers	126,919	126,745
Printing of tickets	31,640	32,486
	1,124,909	1,123,628
Casinos, Restaurants, Lodging		
Promotional allowances	23,154	19,137
Restaurants	26,992	26,227
	50,146	45,364
Video Lotteries		
Commissions to retailers	285,738	272,115
Printing of coupons	1,312	1,050
	287,050	273,165
Bingo		
Prizes awarded	18,294	16,574
Commissions to operators	2,297	2,082
Printing of cards	825	776
	21,416	19,432
	1,483,521	1,461,589

Notes to Financial Statements

4 Interest – Net

(in thousands of dollars)	2006	2005
Interest on bank loans	12,034	10,267
Interest on term deposits	(561)	(534)
	11,473	9,733

5 Special Payments

(in thousands of dollars)	2006	2005
Compensation to the Government of Canada	14,819	14,457
Net contribution to the Manoir Richelieu LP	7,951	5,416
Special commissions to non-profit organizations	1,029	1,120
Compensations to participating non-profit organizations	7,861	7,314
Compensations to non-participating non-profit organizations	799	772
	32,459	29,079

Compensation to the Government of Canada
Under an agreement reached between the provincial governments and the Government of Canada concerning its withdrawal from the administration of lotteries, the provinces pay the federal government the equivalent of $24 million in 1979 dollars every year. For the year ended March 31, 2006, this amounted to $61.9 million (2005: $60.4 million).

The Québec Government's share is payable by the Corporation in accordance with an agreement between the provinces and regional lottery corporations.

Net Contribution to the Manoir Richelieu Limited Partnership
Under the terms of the guarantee agreement and in accordance with the distribution methods specified in the partnership agreement, the net contribution represents the minimum share of liquidities generated by the operations of the Casino de Charlevoix that is to be paid to the partners, taking into account Loto-Québec's share in the results generated by the Manoir Richelieu.

Special Commissions to Non-Profit Organizations (NPOs)
Further to a decision by the shareholder, a commission equal to the discount allotted to retailers is paid to non-profit organizations selling lottery tickets through the LOTOMATIQUE subscription system.

Notes to Financial Statements

Special Payments (continued)

Compensations to Non-Profit Organizations (NPOs)

Participating NPOs

The Société des bingos du Québec Inc. allots charitable or religious organizations that hold a bingo license an amount equal to the higher of 36.4% of bingo ticket sales less the value of prizes paid to game winners, or 50% of net income generated by bingo games, not counting compensation to non-participating NPOs.

Non-Participating NPOs

The Société des bingos du Québec Inc. allots an amount equal to 5.45% of total ticket sales of the *LE GRAND TOUR* game (less the value of prizes awarded to winners of this game) to charitable or religious organizations that hold a bingo license but do not participate in the Corporation's bingo games.

6 Fonds d'aide à l'action communautaire autonome and Fonds à l'action humanitaire internationale

Under its act of incorporation, each year the Corporation pays into the Fonds d'aide à l'action communautaire autonome and the Fonds à l'action humanitaire internationale sums equivalent to 5% and 1% respectively of net income earned during the previous fiscal year through the operation of the State-run casinos and the businesses which are incidental to them.

7 Contributions to the Québec Government

(in thousands of dollars)	2006	2005
Ministère de l'Agriculture, des Pêcheries et de l'Alimentation (MAPAQ)	5,500	5,500
Ministère de la Santé et des Services sociaux	52,000	47,000
Ministère de la Sécurité publique	3,530	3,506
	61,030	56,006

8 Accounts Receivable

(in thousands of dollars)	2006	2005
Wholesalers	37,271	18,735
Retailers	19,469	15,081
Miscellaneous	15,730	10,787
	72,470	44,603

Notes to Financial Statements

9 Inventory

(in thousands of dollars)	2006	2005
Lotteries		
Modules - Game terminals	2,707	3,357
Video Lotteries		
Modules - Video lottery terminals	3,864	4,163
Restaurants		
Food and beverages	6,180	6,079
Kitchen and hotel equipment	3,201	3,201
	9,381	9,280
	15,952	16,800

10 Investments

(in thousands of dollars)	2006	2005
Moliflor Loisirs Développement and its wholly owned subsidiaries		
Shares - 35% interest	4,803	–
Loans, 8%, capital and interest cashable as at May 31, 2016	82,169	–
	86,972	–
Manoir Richelieu Limited Partnership and 9064-1812 Québec Inc. General Partnership, interest equivalent to 50% of the operation of the Manoir Richelieu and Casino de Charlevoix	41,896	39,761
	128,868	39,761

On March 30, 2006, Loto-Québec purchased an interest in the form of shares in Moliflor Loisirs Développement, a French concern that controls a group which operates a number of casinos in France. Moreover, on that same date, the Corporation took over the loans of this company's subsidiaries totalling $82 million.

The consolidation value includes an amount equivalent to the difference between the cost of the investment in shares and the interest acquired by the Corporation in the net holdings of the satellite company on the date of acquisition. The distribution of the purchase price will be determined subsequent to an assessment of Moliflor Loisirs Développement's assets during the course of the next fiscal year. The Corporation enters its share of the results as of March 30, 2006, the acquisition date.

Notes to Financial Statements

11 Tangible Assets

(in thousands of dollars)	2006			2005
	Cost	Depreciation Accumulated	Net	Net
Land	30,259	–	30,259	30,028
Buildings	292,263	89,561	202,702	210,210
Parking lot landscaping	128,378	60,416	67,962	74,358
Rented parking lot landscaping	5,271	2,772	2,499	2,775
Interior design	181,997	94,130	87,867	93,881
Exterior landscaping	30,493	21,125	9,368	10,943
Leasehold improvements	36,043	26,035	10,008	11,534
Office furniture	29,317	19,749	9,568	10,530
Automotive equipment	1,041	756	285	237
Equipment	540,099	339,412	200,687	219,900
Art works	4,947	–	4,947	4,594
Unused tangible assets	14,659	–	14,659	10,536
	1,294,767	653,956	640,811	679,526

Unused tangible assets consist of unused equipment in the amount of $13.4 million (2005: $10.5 million), as well as buildings undergoing renovation valued at $1.3 million.

Tangible assets put out of service at a cost of $5.5 million (2005: $7.1 million) and fully amortized as at March 31, 2006, are included in equipment.

12 Intangible Assets

(in thousands of dollars)	2006			2005
	Cost	Depreciation Accumulated	Net	Net
Software and computer development	79,473	29,049	50,424	17,575
Computer projects in development	19,434	–	19,434	49,145
	98,907	29,049	69,858	66,720

13 Bank Loans

Demand bank loans are authorized by the Québec Government for a maximum amount of $700 million and bearing interest at market rates of 3.74% to 4.22% (2005: 2.56% to 3.24%).

Notes to Financial Statements

14 Accounts Payable and Accrued Liabilities

(in thousands of dollars)	2006	2005
Suppliers and accrued liabilities	138,036	126,209
Dividends	6,000	82,000
Manoir Richelieu LP	11,866	5,299
Québec Sales Tax	5,893	6,085
Goods and Services Tax	5,051	5,100
	166,846	224,693

15 Provisions Related to Prizes

(in thousands of dollars)	2006	2005
Provision for unclaimed prizes	11,069	10,436
Provision for prize structure variances	690	407
	11,759	10,843

The provision for unclaimed prizes is made up of unclaimed prizes from all Loto-Québec products, excluding Canada-wide games. This amount is used for the payment of bonuses and retailer prizes.

The provision for prize structure variances in bingo is made up of all differences between the theoretical amount of prizes to be awarded under the prize structure and the actual amount payable. Monies from this provision are used principally to offset occasional shortfalls arising from prize structures that exceed the forecast amount. With the approval of the Board of Directors, this provision may also be used for bonus prizes or for discharging any claims associated with the games, or it may be included in the results.

16 Commitments

Leases

Under an agreement expiring June 2013, the Corporation is committed to paying a minimum of $90.2 million (2005: $32.6 million) for the rental of the premises occupied by its head office in a building held in joint tenancy with SITQ National Inc., representing a consolidated commitment of $45.1 million (2005: $16.3 million). In addition, the Corporation is committed, under long-term leases expiring on various dates up until May 2035, to renting space for administrative offices. In certain cases, these leases have a two- to five-year renewal option.

Notes to Financial Statements

Commitments (continued)

The minimum rental payments (in thousands of dollars) are as follows:

2007	26,390
2008	24,222
2009	21,934
2010	20,945
2011	19,388
2012 and subsequent:	25,537
	138,416

Contributions to the Québec Government

Ministère de l'Agriculture, des Pêcheries et de l'Alimentation (MAPAQ)

In view of the decision to terminate the activities of fairground casinos, the Government authorized Loto-Québec to give its commitment to the MAPAQ to pay an annual sum of $5.5 million into a designated fund each calendar year for five years, until 2008. Upon expiry, the agreement will be renewable by mutual consent of the parties.

Ministère de la Santé et des Services sociaux

With the authorization of the Québec Government, the Corporation has given its commitment to the Ministère de la Santé et des Services sociaux to pay a total of $22 million annually (2005: $17 million) into a designated fund to finance prevention activities, treatment services, research programs and information campaigns to help compulsive gamblers.

Moreover, the Corporation has also given its commitment to the Ministère to pay $30 million annually into another designated fund to finance support and assistance services for seniors with restricted mobility living at home or at residential centres.

The Corporation is unable to assess the total amount of these commitments.

Ministère de la Sécurité publique

With the authorization of the Québec Government, the Corporation has given its commitment to the Ministère de la Sécurité publique to pay an annual sum of $3 million into a designated fund to finance a series of rigorous control activities and measures to be implemented by the Régie des alcools, des courses et des jeux related, in particular, to overseeing access to video lottery terminals. The Corporation is unable to assess the total amount of this commitment at this time.

Moreover, the Corporation has also given its commitment to the Ministère to pay approximately $0.5 million annually into a designated fund over a period of five years ending September 30, 2007 to finance additional resources to help reduce the time required to certify the Corporation's gaming equipment.

Notes to Financial Statements

17 Financial Instruments

Fair Value
The fair value of short-term financial instruments is equivalent to their accounting value due to their matching expiry date.

The fair value of investments totalling $128.9 million cannot be evaluated given the market absence for this type of financial instrument.

Credit Risk
Management does not believe that the Corporation is exposed to any major credit risk. Loto-Québec's casinos' cash on hand includes the gaming houses' cash inventory. Finally, accounts receivable are primarily from operations concluded with numerous wholesalers and retailers.

18 Consolidated Cash Flows

(in thousands of dollars)	2006	2005
Cash and cash equivalents at the end		
Cash on hand – Casinos	48,764	47,139
(Bank overdraft) cash on hand	(15,563)	26,671
	33,201	73,810
Changes in non-cash operating items		
Accounts receivable	(27,867)	26,482
Inventory	848	(2,488)
Prepaid expenses	(6,265)	4,806
Prizes payable	16,934	(15,953)
Accounts payable and accrued liabilities	4,300	7,132
Provisions related to prizes	916	1,036
Deferred income	108	598
	(11,026)	21,613
Acquisition of tangible assets	(42,286)	(27,545)
Less: prepaid expenses transferred to tangible assets	(569)	314
	(42,855)	(27,231)
Acquisition of intangible assets	(9,525)	(15,473)
Less: prepaid expenses transferred to intangible assets	(474)	–
	(9,999)	(15,473)
Supplementary information		
Interest paid	12,535	13,604

Notes to Financial Statements

19 Pension Plans

Employees of the parent corporation, the Société des loteries vidéo du Québec Inc., the Société des bingos du Québec Inc. and Ingenio, filiale de Loto-Québec Inc. participate in the Régime de retraite des employés du gouvernement et des organismes publics (RREGOP), the Régime de retraite des fonctionnaires (RRF), or the Régime de retraite du personnel d'encadrement (RRPE). These are benefit-based pension plans and contain guarantees upon retirement or death. Contributions charged to consolidated earnings for the fiscal year for these plans total $3.2 million (2005: $2.4 million). The employer's obligations toward these government plans are limited to its contributions as an employer.

The employees of the Société des casinos du Québec Inc. and Resto-Casino Inc. participate in a defined contribution plan. Employees of Nter Technologies LP participate in a group Registered Retirement Savings Plan. These defined contribution plans are voluntary and provide employees with immediate payment of the employer's contribution, which is equal to the employee's contribution within the limits prescribed by the plans. Contributions charged to consolidated earnings for the fiscal year under these plans total $9.6 million (2005: $9.2 million).

20 Related Party Transactions

In addition to the related party transactions already outlined and recorded at exchange amount, Loto-Québec is related to all Québec Government departments and special funds, as well as to all agencies and enterprises controlled directly or indirectly by the Government, or subject either to joint control or significant mutual influence on the part of the Government. With the exception of the aforementioned operations, the Corporation has not concluded any business transactions with these related parties other than within the normal course of its activities and on regular business terms. These transactions are not disclosed separately in the financial statements.

21 Comparative Figures

Certain figures posted for the year 2005 have been reclassified in order to conform to the presentation adopted in 2006.

Notes to Financial Statements

22 Segmented Information

(in thousands of dollars)							2006
Activity Sectors	Lotteries	Casinos Restaurants Lodging	Video Lotteries	Bingo	Multimedia	Inter-Company Elimination	Consolidated Figures
Revenues							
Games	1,860,630	758,464	1,298,805	39,857	1,354	(210)	3,958,900
Restaurants	–	86,164	–	–	–	(43,750)	42,414
Lodging	–	14,716	–	–	–	–	14,716
	1,860,630	859,344	1,298,805	39,857	1,354	(43,960)	4,016,030
Cost of Sales							
Games	1,125,059	23,154	287,050	21,416	–	(150)	1,456,529
Restaurants	–	26,992	–	–	–	–	26,992
	1,125,059	50,146	287,050	21,416	–	(150)	1,483,521
Gross Profit	735,571	809,198	1,011,755	18,441	1,354	(43,810)	2,532,509
Operating Expenses							
Operating expenditures	154,397	482,771	63,412	5,622	6,092	(43,810)	668,484
Depreciation of tangible assets	10,609	44,670	29,251	173	51	–	84,754
Depreciation of intangible assets	5,244	2,714	1,596	363	3	–	9,920
Interest – Net	3,711	2,452	5,336	(9)	(17)	–	11,473
	173,961	532,607	99,595	6,149	6,129	(43,810)	774,631
Income (loss) Before the Following Items	561,610	276,591	912,160	12,292	(4,775)	–	1,757,878
Special payments	15,848	7,951	–	8,660	–	–	32,459
Goods and Services Tax	18,034	9,371	24,126	433	–	–	51,964
Québec Sales Tax	20,613	10,744	27,658	497	–	–	59,512
	54,495	28,066	51,784	9,590	–	–	143,935
Net Income (net loss)	507,115	248,525	860,376	2,702	(4,775)	–	1,613,943

Expenses are assumed by the respective corporate sectors. Certain operating expenditures and related consumption taxes attributable directly to the sectors are assigned based on their use. Others are assigned in accordance with the net revenues of the principal sectors.

Notes to Financial Statements

Segmented Information (continued)

(in thousands of dollars)

Activity Sectors	Lotteries	Casinos Restaurants Lodging	Video Lotteries	Bingo	Multimedia	Inter-Company Elimination	2005 Consolidated Figures
Revenues							
Games	1,857,225	751,913	1,236,884	36,597	1,070	(104)	3,883,585
Restaurants	–	82,766	–	–	–	(42,294)	40,472
Lodging	–	13,407	–	–	–	–	13,407
	1,857,225	848,086	1,236,884	36,597	1,070	(42,398)	3,937,464
Cost of Sales							
Games	1,123,732	19,137	273,165	19,432	–	(104)	1,435,362
Restaurants	–	26,227	–	–	–	–	26,227
	1,123,732	45,364	273,165	19,432	–	(104)	1,461,589
Gross Profit	733,493	802,722	963,719	17,165	1,070	(42,294)	2,475,875
Operating Expenses							
Operating expenditures	146,298	474,052	69,368	5,512	6,108	(42,294)	659,044
Depreciation of tangible assets	10,695	40,320	29,322	155	64	–	80,556
Depreciation of intangible assets	1,298	2,242	1,616	362	3	–	5,521
Amortization of deferred charges	–	1,028	–	–	–	–	1,028
Interest – Net	3,125	2,342	4,283	(7)	(10)	–	9,733
	161,416	519,984	104,589	6,022	6,165	(42,294)	755,882
Income (loss) Before the Following Items	572,077	282,738	859,130	11,143	(5,095)	–	1,719,993
Special payments	15,577	5,416	–	8,086	–	–	29,079
Goods and Services Tax	16,609	9,930	23,275	420	–	–	50,234
Québec Sales Tax	19,001	11,383	26,682	481	–	–	57,547
	51,187	26,729	49,957	8,987	–	–	136,860
Net Income (net loss)	520,890	256,009	809,173	2,156	(5,095)	–	1,583,133

Expenses are assumed by the respective corporate sectors. Certain operating expenditures and related consumption taxes attributable directly to the sectors are assigned based on their use. Others are assigned in accordance with the net revenues of the principal sectors.

Comparative Results

As at March 31

(in thousands of dollars)	2006	2005	2004	2003	2002
Consolidated Statement of Income					
Revenues	4,016,030	3,937,464	3,760,743	3,749,410	3,661,786
Cost of Sales					
Lotteries					
Prizes awarded	966,350	964,397	962,692	953,225	926,308
Commissions to retailers	126,919	126,745	123,595	125,858	123,205
Printing of tickets	31,640	32,486	35,862	33,329	35,031
Lotteries Subtotal	1,124,909	1,123,628	1,122,149	1,112,412	1,084,544
Casinos	23,154	19,137	19,577	18,737	13,721
Restaurants	26,992	26,227	24,207	26,577	21,859
Video Lotteries					
Commissions to retailers	285,738	272,115	276,842	280,007	281,136
Printing of coupons	1,312	1,050	1,132	1,110	770
Video Lotteries Subtotal	287,050	273,165	277,974	281,117	281,906
Bingo					
Prizes awarded	18,294	16,574	16,734	17,036	17,962
Commissions to operators	2,297	2,082	2,091	2,112	2,208
Printing of cards	825	776	731	663	439
Bingo Subtotal	21,416	19,432	19,556	19,811	20,609
Total	1,483,521	1,461,589	1 463,463	1,458,654	1,422,639
Gross Profit	2,532,509	2,475,875	2 297,280	2,290,756	2,239,147
Operating Expenses					
Lotteries	154,397	146,298	136,028	131,949	124,228
Casinos/Restaurants/Lodging	439,021	431,758	406,067	398,956	353,632
Video Lotteries	63,412	69,368	49,605	40,350	39,790
Bingo	5,562	5,512	5,580	5,416	5,205
Multimedia	6,092	6,108	5,905	5,133	7,061
Corporate *				36,345	40,278
Depreciation of fixed assets	–	–	80,150	77,440	76,045
Depreciation of tangible assets	84,754	80,556	–	–	–
Depreciation of intangible assets	9,920	5,521	–	309	308
Amortization of deferred charges	–	1,028	2,050	2,359	1,333
Interest – Net	11,473	9,733	12,177	7,856	7,024
	774,631	755,882	697,562	706,113	654,904
Income Before the Following Items	1,757,878	1,719,993	1,599,718	1,584,643	1,584,243
Special payments	32,459	29,079	28,165	26,873	26,321
Goods and Services Tax	51,964	50,234	49,553	52,093	50,916
Québec Sales Tax	59,512	57,547	56,750	59,603	58,527
	143,935	136,860	134,468	138,569	135,764
Net Income	1,613 943	1,583,133	1,465,250	1,446,074	1,448,479

* As of March 31, 2004, Corporate sector expenses not directly attributable to another sector are apportioned in accordance with the net earnings of the principal sectors.

Code of Ethics and Rules of Professional Conduct

The values outlined in the Corporation's Code of Ethics and Rules of Professional Conduct, notably integrity, loyalty and transparency, are values that Loto-Québec has always emphasized and that all senior executives of the Corporation and its subsidiaries are required to respect. During the past fiscal year, the principles of this Code have been fully adhered to by all those to whom it applies.

1 Definitions

1. In this Code, unless the specific context indicates otherwise:

   a) "**director**" designates a member of the Board of Directors of Loto-Québec or any of its subsidiaries, whether or not working full-time within the Corporation or one of its subsidiaries
   b) "**Board**" designates the Board of Directors of Loto-Québec or any of its subsidiaries
   c) "**executive**" designates any contractual manager whose employment conditions are subject to the approval of the Board
   d) "**enterprise**" designates any form that can be taken by an organization for the production of goods or services or the conducting of any other business of a commercial, industrial or financial nature, or any group seeking to promote certain values, interests or opinions or to exercise an influence on public officials; however, this does not include the Corporation or a non-profit association or group that has no financial link with the Corporation or is not incompatible with the objects of the Corporation
   e) "**subsidiary**" designates a company wholly-owned by Loto-Québec
   f) "**Act**" designates the legislation constituting the Société des loteries du Québec (L.R.Q.c. S-13.1), as amended from time to time
   g) "**Chairman of the Board**" designates the President and Chief Executive Officer of Loto-Québec
   h) "**Corporation**" designates Loto-Québec

2 Ethical Principles and General Rules of Professional Conduct

2.1 This Code applies to the directors and executives of the Corporation and its subsidiaries, who are bound to comply with its provisions.

2.2 A director or executive is appointed to contribute to the achievement of the Corporation's mission in the best interests of Québec. Accordingly, he is expected to use his knowledge, abilities, experience and integrity in a way that will promote the fair and efficient accomplishment of the objectives assigned to the Corporation by the Act and the effective administration of the property it owns as mandatary of the State.

2.3 In the course of performing his duties, a director or executive shall comply with the Corporation's mission and the following objectives:

- **Social role**: by expanding the ways of sharing the fruit of its operations with the various communities and regions and increasing its activities in the prevention of compulsive gambling
- **Integrity and credibility**: by demonstrating steadfast vigilance to ensure the integrity, transparency and credibility of the Corporation's activities
- **Expansion**: by developing new markets through associations and partnerships which will allow the Corporation to considerably enhance the traditional lottery games, casinos and video lotteries it offers
- **Competence and expertise**: by promoting the development of the skills essential to the Corporation and establishing programs that ensure respect for human resources
- **Performance**: by offering the best possible entertainment products and services in the lottery, casino, video lottery and bingo sectors, and by increasing the public funds entrusted to it

2.4 A director or executive who, at the request of Loto-Québec or any of its subsidiaries, serves as director, executive or member of another undertaking or company is held to the same standards and obligations.

Ethical Principles and General Rules of Professional Conduct

2.5 In the performance of his duties, a director or executive shall seek to satisfy only the interests of the Corporation, to the exclusion of his own interests or those of others.

2.6 In the performance of his duties, a director is required to comply with the ethical principles and rules of professional conduct prescribed by the Regulation Respecting the Ethics and Professional Conduct of Public Office Holders to the extent that they are applicable to him.

3 Duties and Obligations of Directors and Executives with Respect to Conflicts of Interest

3.1 Prevention of conflicts of interest

3.1.1 A director or executive shall avoid placing himself into a situation in which his personal interest is in conflict with the duties of his position.

3.1.2 To be applicable under the terms of this Code, the interest held by a director or executive in another enterprise must be such that it is likely to conflict with the performance of his duties within the Corporation or any of its subsidiaries. A director or executive who has an interest in an enterprise is in a situation of "conflict of interest" in the following cases, among others:

- if Loto-Québec or any of its subsidiaries has or is likely to have a significant business relationship with the enterprise, that relationship being significant both for Loto-Québec and for the enterprise
- if the enterprise is a listed company and its business relationship with Loto-Québec or any of its subsidiaries is likely to have an effect on listed shares
- if the interest of the director or executive in the enterprise that has a business relationship with Loto-Québec or any of its subsidiaries is such that it may influence the enterprise's affairs
- if the enterprise has signed a contract with Loto-Québec or any of its subsidiaries and this contract is such that it has an impact on the enterprise's assets
- if the enterprise is awarded a contract for which the director or executive has been involved in the choice of supplier

3.1.3 A director or executive who is party to a contract with Loto-Québec or any of its subsidiaries other than his contract of engagement is also considered to be in conflict of interest.

3.2 Disclosure and abstention

3.2.1 A director or executive who:

a) has a direct or indirect interest in an enterprise that places him in a situation of conflict of interest under section 3.1.2 of this Code; or
b) is party to a contract with the Corporation or a subsidiary under section 3.1.3

shall disclose the nature and extent of his interest in writing to the Chairman of the Board. A director shall also abstain from deliberating or voting on any question linked to this interest and refrain from attempting to influence the related decision. He shall withdraw from the meeting while deliberations and voting on this question continue.

Duties and Obligations of Directors and Executives with Respect to Conflicts of Interest (continued)

3.2.2 A director or executive shall make the disclosure required in section 3.2.1 as soon as he has knowledge that he is in a conflict of interest under sections 3.1.2 and 3.1.3. In the case of a director, this disclosure of interest shall be recorded in the minutes of the proceedings of the Board of Directors, of which he is a member.

3.2.3 A director or executive shall notify the Chairman of the Board in writing of any rights that he may invoke against the Corporation or any of its subsidiaries, indicating their nature and value, as soon as these rights come into existence or when he acquires knowledge of them.

3.2.4 A director or executive shall also submit an attestation in the form provided to the Chairman of the Board by June 1st of each year in which he remains in office.

3.2.5 The Chairman of the Board submits the attestations referred to by these sections to the Secretary of the Corporation, who keeps them at the disposal of the members of the Board and the executives. These attestations are treated as strictly confidential.

3.3 Waiver

3.3.1 This Code does not apply to:
a) owning securities when the size of the holding is not likely to place the director or executive into a conflict of interest
b) owning an interest by way of a mutual fund in whose management the director or executive plays no direct or indirect role
c) owning interests through a blind trust whose beneficiary may not know its make-up
d) owning a minimum number of shares required to be eligible as director of a corporation
e) an interest which, by its nature and extent, is common to the public at large or a particular sector in which the director or executive operates
f) a directors' liability insurance agreement
g) the owning of shares issued or guaranteed by a government or municipality under the same conditions for everyone

4 Effective Date

4.1 This Code takes effect September 1, 1999.

Language Policy

Making Quality a Top Priority

In accordance with the Government's policy on the use of French in public administration, on November 24, 2000, the Corporation adopted a language policy that reflects its business mission and covers the use and quality of French within each of its activity sectors. During the past fiscal year, Loto-Québec continued to collaborate actively with the Office québécois de la langue française to ensure the consistent application of this policy throughout the organization and its subsidiaries.

Board of Directors

Alain Cousineau
Montréal
Chairman of the Board
President and Chief Executive Officer
Loto-Québec

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BCF S.E.N.C.R.L.

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Vice-President, Legal Affairs
Loto-Québec

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Chief Executive Officer

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Vice-President
Legal Affairs

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Fondation Mise sur toi

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Legal Affairs

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Director
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Internal Auditing

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André Dumouchel
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Human Resources

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Corporate Vice-President
Security

Corporate Vice-Presidency
Information Technologies

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Managing Director
Nter Technologies

Richard Bégin
Director
Investigations

Harold Côté
Director
Information Technologies
Security

Danielle Leblanc
Director
Human Resources
Head Office and Subsidiaries

Danielle Milot
Director
Human Resources
Payroll and Information systems

Line Beaulieu
Director
Organizational Development

Gilles Naud
Director
Human Resources
Casinos and Resto-Casino

Global Remuneration
Directorate

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Senior Vice-President
Commercial Affairs

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President of Operations
Lotteries

Simon Patenaude
Managing Director
Marketing

Victor Devito
Managing Director
Sales and Business Relations

Vincent Trudel
Managing Director
Société des loteries vidéo du Québec

Michel Hupé
Managing Director
Société des bingos du Québec

Nathalie Rajotte
Managing Director
Ingenio

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President of Operations
Société des casinos du Québec
Resto-Casino

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Marketing Vice-President
Société des casinos du Québec

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Hilton Lac-Leamy

France Fortin
Executive Assistant to the President

Daniel Bissonnette
General Manager
Casino de Montréal

François Tremblay
General Manager
Casino de Charlevoix

Kevin Taylor
General Manager
Casino du Lac-Leamy

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Corporate Vice-President
Finance and Administration

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Real Estate

François Huot
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Analysis and Planning

Marco Labelle
Managing Director
Casino Montréal

Simon Brodeur
Senior Vice-President
Major Strategic Initiatives

Managing Directorate
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